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ROYAL COMM. ON COAL

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ROYAL COMMISSION ON COAL

Sydney, N. S., September 20th, 1945.

VOLUME XLV

Witness: K. J. Morrison.....Page 4133 to end.

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ROYAL COMMISSION ON COAL

Sydney, N. S.,
September 20, 1945.

The Royal Commission on Coal convened at the Court House, Sydney, N. S., on Tuesday, September 20, 1945, at 10.00 A.M.

PRESENT:

Hon. Mr. Justice W. F. Carroll, Chairman
Hon. Mr. Justice C. C. McLaurin, Commissioner
Angus J. Morrison, Esq., Commissioner
J. J. Frawley, K.C., Commission Counsel
J. L. Dubinsky, Assistant Counsel
Robert D. Howland, Secretary
L. A. Forsyth, K.C., representing Dominion Steel and Coal Corporation Limited
J. L. Cohen, K.C., representing United Mine Workers of America, District 26.

K. J. MORRISON - Cross Examination continued by Mr. Cohen.

Q Mr. Morrison, we were discussing the material on page 12 of Exhibit 205 yesterday, and reference was made to the standard profit, that is the period used as the basis for computing the standard profit in respect to which excess profit is calculated?

A Yes.

Q Now in respect to this company, that is the Dominion Coal Company, was that period taken indicated here, that is the period 1936 to 1939?

A Well, that period is set by the department as applying to all companies.

Q Well, unless there is some specific arrangement made with any company that may claim that that period doesn't properly or truthfully reflect the profit that they should be considered entitled to make. That is so, isn't it?

A Well, yes, the period is not the thing that is involved.

Q I didn't ask only about the period. I asked if in this case excess profit is being paid to the government on the basis of the actual profit they earned during that period, or is there a special arrangement?

A There is an arrangement that is provided for in the Income Tax Act whereby a company makes an application to a board of referees and is awarded a standard profit.

Q All right. Now what standard profit, if any, was awarded to the Dominion Coal Company?

A In Exhibit A for Identification, Statement A under "Balance Sheet" shows the particulars of the standard profit awarded by the board of referees in the amount of \$1,000,000.00.

Q That is for the Dominion Coal Company alone?

A And subsidiaries.

Q And its subsidiaries?

A Its subsidiaries.

Q Just so I can be clear about it, are the companies named on page 1 of Exhibit 205 the only companies considered to be subsidiaries of Dominion Coal Company Limited? That is the Dominion Coal Company, Cumberland Railway and Coal Company, Sydney and Louisburg Railway and the Dominion Rolling Stock Company? Now then, where is the standard profit statement?

A That statement "A" after Statement No. 10 under "Balance Sheet".

Q And that you say covers Dominion Coal Company Limited, Cumberland Railway and Coal Company, Sydney and Louisburg Railway, and what else?

A Dominion Rolling Stock Company Limited.

Q Now in point of fact there was no period from 1930 on say to 1941 inclusive, during which that group of companies earned a profit of a million dollars on the basis of their book showing, or anything like it?

A Not during that period of 1936 to 1939.

Q To 1941, I suggested. That's right, isn't it?

A Pardon me, I didn't get your question.

Q There was no year during the period 1930 to 1941 in which, on the basis of the companies' earnings, the group of companies just mentioned earned a profit of a million dollars?

A That is correct.

Q Now do you know anything about the reasons, based on the records of the company's books for the loss shown in 1941?

A The reasons, no.

Q I mean is there anything outstanding? Because you have a book profit shown in 1940 of \$980,000.00; you have a book profit shown in 1942 of \$1,139,000.00, and during the intervening year a loss of \$767,000.00. I am wondering if you can give any clue to that?

A I don't know. That refers to the statements, Mr. Cohen. I would have to analyze the statements to give you the reasons for the difference between the results of the two years.

Q Well, would you mind just specifying the statement and we can make an examination of it later?

A This is on Dominion Coal Company Limited, not its subsidiaries. We have not a consolidated profit and loss account, so that we would have to make a comparison of all the different profit and loss accounts of the various companies for the two years.

Q But these figures on page 12 relate, as I understand it, to Dominion Coal Company Limited?

A Yes.

Q Now would that be covered by Statement No. 13 of Volume A?

A That's right, yes.

Q All right, we will come to that. And with respect to the dividends that you show to have been paid during the period 1935 to 1943 inclusive, aggregating \$2,773,969.49, those dividends were paid by Dominion Coal Company Limited?

A That's right.

Q To whom?

A To the holders of the preferred shares.

Q And have you a breakdown of that anywhere in "A"? I don't want you to go to the trouble of giving us that.

A How do you mean, a breakdown?

Q Well, is it all preferred share dividends?

A All preferred share dividends.

Q And do you give us anywhere--I think you do--particulars as to the ownership of those preferred shares?

A You mean as between the public and the company?

Q As between the public and the parent company?

A Dominion Steel and Coal, yes.

Q Now we come on to page 16 and under the heading "Summary of Sales" you say: "A summary of the percentage of tonnage sold to the public, as compared with that to the Steel Division" - and we had it made clear yesterday that "Steel Division" is Steel Division of Dosco - "and for company consumption, etc., is as follows." Now I would like to know if you have any breakdown of the tonnage sold to the public, say a breakdown as between such consumers as railways and others or as between outstanding industries, and just the general public?

A Under "Sales" in Exhibit A for Identification you will find Schedule No. "S" - 3, which gives the particulars of the sales.

Q All right, thank you. I won't bother you for the details of that now. We will examine it. And of course you don't know anything at all as to any difference in quality between the sales to one or the other?

A These statements are broken down into the grades. Schedule "S" - 3 is mine run or round, and further on is slack coal, so it is broken down by quality of coal. And nut coal.

Q In other words, Schedule "S" - 3 goes on to five pages?

A That is correct.

Q Will you notice on page 17 your high and low figures for coal of a particular quality for these specified years?

A Yes.

Q And then you note at the bottom that "In using the above

prices, sales to customers of low tonnages have been excluded," from which I take it that these prices only relate to fairly large consumers or purchasers of Dosco coal?

A Yes, the details of which are on the schedules to which we have just been referring.

Q I was going to ask you whether there is any explanation of the variation?

A No, it is merely a factual statement.

Q Well, does the statement at all indicate who was getting the coal at the high price and who was getting it at the low price?

A Oh yes, the statement that you have just referred to is in "S" - 2, "S" - 3.

Q Did you say "S" - 2 also?

A "S" - 2 is a summary of particulars of each schedule as shown in the report, an explanation of what they represent.

Q Now then, on page 18 you make a reference to Schedule 4 and state that during the years 1930 to 1944, and based, as I understand it, on the company's records, there was a loss on sales to the Steel Division of Dosco by the Dominion Coal Company aggregating over that period \$7,584,623.04, is that right?

A That is when you compare the net selling value with the mine cost, that is correct.

Q What do you mean by selling value? I never heard of that term. There is a selling price. What is selling value?

A They are synonymous terms as far as I am concerned.

Q Price and value?

A Yes, in this particular case.

Q The selling prices you got from the invoices and records of sales?

A From the records of the company.

Q Then who made the comparison with mine cost? Is that something that the company had made?

A That's right.

Q And had also been shown in its books?

A In its records.

Q And you have adopted those records?

A We have presented them to the Commission.

Q And they arrived at mine cost on the basis of their charges to operating expense, some of which you later in this report seriously criticize?

BY MR. FORSYTH: Well now, does he "seriously criticize"?

A Criticize or take exception.

BY MR. COHEN: Any item which in your report you suggest should not be charged to operating expense and which has been charged would necessarily be reflected in the mine cost?

A Not necessarily reflected in the mine cost. You see, there are two phases of the accounts, namely, those that are dealing with the mining costs, which are things directly attributable to the cost of producing coal, then in addition to that you have some further charges for administration and overhead, and also then you have in the accounts miscellaneous income or revenue of the company, so that when you speak of costs one has to be quite clear as to what you have in mind.

Q Well, I asked you about a particular cost which you indicated in your report should not, in your opinion, have been charged against operating expenses.

A There were certain charges which in my opinion should have been spread over. They would ultimately have been charged to operating cost, but should have been spread over a number of years.

Q Instead of the year in which the expenditure was made?

A That's right.

Q And that you indicate on page 24, "Charges in mining costs which are of a capital or deferred nature"?

A That's right.

Q Now was there any computation of any kind in the records as to the loss based on comparing the selling price to the Steel Division with selling prices of the same quality coal to other purchasers?

A No, not that I know of.

Q And you don't know how much more that loss would be?

A Well, I don't know that there would be any more loss.

Q Well, but this is a loss based on the assumption that, first of all there is no profit allowance. You say, "The above loss is based on the costs as shown by the company records," and the cost, as I understand from you, is the mine cost?

A That's right.

Q So that loss is based on the assumption that they are not to make any profit on coal sold to the Steel Division?

A I don't see how that follows, about any assumption that they are not going to make any profit. The facts are that the amount they receive for the coal at the mine is less than it cost to mine that coal.

Q Then when the term "total loss" is used in this instance it is equivalent only to the difference between the cost to the Dominion Coal Company as calculated by that company in their books of the coal sold to the Steel Division of Dosco, that is of the amount by which that cost is more than the money received from the Steel Division?

A By which the mining cost is greater than money received from the Steel Division, that is correct. That is what I have endeavored to point out.

Q And to the extent by which one would have to look after normal marketing costs, selling expense or an anticipated profit in disposing of the coal, to the extent that those figures would enter into the picture the actual loss incurred by the Dominion Coal Company in respect to coal sold to the Steel Division would be the amount of those extra figures greater than \$7,500,000 shown in their books?

A Well, that is merely one way of looking at it. On the other hand, if there was no sale for that coal excepting to that place there might be a greater loss by the non-sale of it.

Q That is fair enough. I merely wanted it made clear that if one assumed that in connection with selling the quantity of

coal that was sold by the Dominion Coal Company to the Steel Division, that there would be sales cost and marketing cost and that one was entitled to make some profit on that coal, to the extent that those assumptions are correct the actual loss to Dominion Coal Company would be, by the extent of those assumptions or the correctness of those assumptions, greater than \$7,500,000.00?

A Well now, supposing we just break that down, Mr. Cohen, and first deal with the first part on Schedule "S" - 4 under "Sales", so that we will all be quite sure what we are talking about. The gross price received by the company is stated, and we will take the year 1944 as an illustration, the gross price is \$5.334. From that deduct freight and agency expense. Now that may include the items you are referring to.

Q What is the agency expense?

A The cost of the agency, and that gives you a net price received at the mine, then that is compared with the mining cost of \$7.455, showing a loss per ton of \$2.328 and a loss for the year of \$2,483,559.02.

Q Is there any similar breakdown as the one you now speak of with respect to coal sold to other customers and particularly to concerns out of the province of Nova Scotia?

A Well now, Schedule "S" - 2, Mr. Cohen, gives you the summary of the coal sales, 1930 to 1944, public sales including railways and commercial sales.

Q Yes; I think you told us earlier that you had no breakdown as between railways and commercial?

A That will then be given on your next schedule, you see, on Schedule "S" -3.

Q I see your point now. In other words, Schedule "S" - 2 is a summary, then supported by Schedule "S" - 3 giving the details? And you will observe, for instance, that on Schedule "S" - 2 that the freight and agency expense of railway and commercial sales is given. It is given at 1.6, is that right?

A 1.626.

Q Is that dollars?

A Yes, \$1.626.

Q Per ton, oh?

A Per ton.

Q And the freight and agency expense allowed for in respect to the coal sold to the Steel Division, if you look at Schedule "S" - 6, is \$.207, is that right?

A That is correct.

Q That is a difference roughly of \$1.40?

A That's right.

Q Now then, you indicate a loss of a similar character for the same period, particularly for the year 1944, as to Seaboard Power Corporation?

A That's right.

Q And that loss, you found from the records of the company, was calculated at \$85,813.43?

A That's right.

Q And again is that loss computed on the basis of the difference between the mine cost and the amount received?

A That is correct, and the particulars are shown on Schedule S-5.

Q Now when you indicate the schedule that deals with sales costs, namely "S" - 15, and give the figures for the years 1930 to 1944 inclusive, you then go on and say, "The cost variation is mainly due to the variation in the destination of coal sold." Now what are these sales costs? Are they commissions?

A The particulars are shown on Schedule "S" - 15.

Q Perhaps you might in a general way be able to describe them to us?

A The headings are all shown there, and I feel that the better way for the record is to refer to the record.

Q I know, but the schedules are not in the record and they are not part of the record, and they only become part of it insofar as any specific reference is made to it.

A I mean, I can read the headings.

Q Oh no, I will take a look at it. On this "Freight and Agency Expense"?

A That's right.

Q All right, thank you. Now again I take it that the records available to you did not enable you to make any breakdown of the 90 per cent of coal sold to the public, save as they appear in the statements that you referred us to yesterday?

A Well now, let us just be sure about that.

BY MR. FORSYTH: You are talking about Cumberland now, aren't you?

BY MR. COHEN: Yes, my friend is right. Is that sale by Cumberland?

A Which page are you on now, Mr. Cohen?

Q 19.

A Schedule 17 refers to the sales of the Cumberland Coal Company.

Q Now on page 21 you deal with the question of mining cost and in the course of your statements there you state that including depreciation at 20 cents per ton?

A Yes.

Q "And all charges as made by the company, the cost is shown as under." Now do you know of the basis for the 20 cents per ton?

A Well, the 20 cents per ton is the basis.

Q Well, how is it arrived at? Why isn't it 15 cents, or 25 cents?

A Well, it is the amount calculated by the company, and by many companies, as in their opinion being sufficient on a tonnage basis to provide for the required amount of depreciation on their physical assets. As is pointed out in the report, that is merely for mining cost purposes, and at the end of the year they adjust their financial statements by taking their entry of 20 cents per ton and putting it through on the actual basis at varying rates on the assets involved.

Q That is, dividing the total depreciation into the total tonnage, is that what you would do at the end of the year?

A No, they take the physical assets and they estimate the expected life of these particular assets and ascertain the rate of depreciation, and by multiplying the assets by that rate they will find the annual sum for depreciation, and they adjust their accounts accordingly.

Q Yes, but what I am trying to ascertain from you here is the basis for adding to each ton of coal produced and sold, 20 cents as being the share that a ton of coal should bear of depreciation?

A That's right, and that is for the purposes of their costs.

Q You say it is later adjusted?

A Yes, but the mining costs are not changed.

Q Then the mining costs continue to be calculated on the basis of a ton of coal absorbing 20 cents of depreciation?

A That's right.

Q Whether or not at the end of the year when the adjustment is actually made the amount is less or more?

A That's right, but the financial accounts of the company are adjusted, and the profit and loss account, which after all is the final statement.

Q That may be. I am just trying to get at the calculation of mining costs.

A That's right.

Q And do you in fact know, on the basis of the actual figures, the amount of depreciation that you would attribute to each ton of coal sold, say in the year 1944, if you divided the tonnage into the total depreciation allowed to itself by the company in its books on depreciable assets during that year?

A Yes, I think I can give you that answer, Mr. Cohen. It will be found on page 23 of Exhibit 204, wherein I have shown a comparison of the amount charged in mining costs of \$600,186.40. Now that represented a charge on the basis of 20 cents per ton. Now when the accounts were adjusted, as will be seen by Statement No. 13 under the Profit and Loss account, the amount that was actually put through finally

1. The first part of the paper is devoted to a general discussion of the problem of the existence of solutions of the system of equations (1) for arbitrary values of the parameters α and β . It is shown that the system has solutions for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative.

2. In the second part of the paper the problem of the uniqueness of solutions of the system (1) is considered. It is shown that the system has a unique solution for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative.

3. In the third part of the paper the problem of the stability of solutions of the system (1) is considered. It is shown that the system has stable solutions for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative.

4. In the fourth part of the paper the problem of the asymptotic behavior of solutions of the system (1) is considered. It is shown that the system has asymptotically stable solutions for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative.

5. In the fifth part of the paper the problem of the periodicity of solutions of the system (1) is considered. It is shown that the system has periodic solutions for all values of the parameters α and β if the function $f(x)$ is continuous and has a bounded derivative.

was \$649,694.03, representing 21.2 cents per ton. In other words, the actual depreciation was in excess of the estimate for mining costs by .012 cents.

Q Of course you are not overlooking the fact that that adjusted figure of \$649,000 includes not only depreciation of \$537,000 but another figure for depletion of \$112,000?

A That's right.

Q And by adding the two together they reach the 21 cents?

A That is correct.

BY MR. FORSYTH: You are talking about Dominion there, are you?

A Dominion.

BY MR. COHEN: We are back, I understand, to Dominion Coal.

MR. FORSYTH requests that the following question be re-read;

What I am trying to ascertain from you here is the basis for adding to each ton of coal produced and sold, 20 cents as being the share that a ton of coal should bear of depreciation?

BY MR. FORSYTH: Now do you think that that states correctly what that means?

MR. MORRISON: I took the question as being asking me why the company set up as a charge in mining cost 20 cents a ton on every ton of coal produced.

BY MR. COHEN: And the company in setting up its estimate of mining costs does so in determining for itself what price it can sell the coal?

A I don't know how the company determines the selling price.

Q Now we don't have to waste time on something so obvious as that. You are not suggesting that they merely go into that as an academic pastime?

A I am not wasting time, I don't think, at any session, when I said I didn't know how the company arrived at their selling price.

Q I didn't ask you that. I don't think it fair to ask you to

express an opinion as to how the coal company arrived at the selling price of coal. I merely asked you if it was not a fact that in arriving at that, an estimate of mining costs is certainly a factor in reaching a conclusion on selling price?

A Certainly; it usually is in business.

Q And that is the reason for making it?

BY MR. FORSYTH: One reason.

BY MR. COHEN: Well now, on page 24 you refer to the schedule showing the details of expenditures made by the company under operating work orders which have been charged to mining costs, and then you go on to say, "These expenditures appear to be of a capital or deferred nature and should be subject to further consideration," etc. Now would you mind giving us the actual statement in Volume A that is referred to?

A Well, the statements in respect of these expenditures would be found at the back of Exhibit 205, the document that you have in your hand. You will notice right at the very end.

Q When you say "attached hereto" in this case you mean the actual document?

A That's right.

Q And then you summarize the totals for Dominion, Cumberland, Sydney & Louisburg, Miscellaneous and Collieries at the bottom of that page, is that right?

A That's right.

Q What do you mean by "Collieries"?

A They are charged under the heading to the different collieries in the attached schedules.

Q Can you give us the total of the five columns? You carry a total down for each column.

A The Dominion total is given on the second last column, \$1,574.625.

Q I wonder if you would mind having Mr. Simpson give us the total of the five columns?

A Well, it is right there, Mr. Cohen. You see the Dominion total is shown.

Q Do I understand that column No. 4 totals the previous three columns?

A That's right.

Q Then I was wrong when I described the document before, and you unwittingly agreed with that misdescription, when I stated that you showed the Dominion Company, Miscellaneous, Sydney & Louisburg, Collieries and Cumberland?

A Well, I didn't know whether you were referring first to the Dominion Company as a company, but in order to be quite clear, the first three figures are totalled in the fourth column, then the column figure is shown by itself in the fifth column.

Q Now what would the column "Miscellaneous" mean? Those are all expenditures made by the Dominion Coal Company?

A Yes, but if you will refer to the after schedules you will find the particulars of the miscellaneous items.

Q Well then, the total would be the combination of the figures shown under Dominion total and that shown under Cumberland?

A That is for the two companies, that's right.

Q So that roughly it is \$1,600,000.00 of expenditures made during the period 1932 to 1944, which you say appear to be of a capital or deferred nature?

A That is correct.

Q And having regard to the fact that your other figures dealt with the years 1930 to 1944 inclusive, is there any explanation of the fact that there is nothing shown in this tabulation for the years 1930 or 1931?

A Well, the records were not readily available in respect of those two years, and that what was the reason we did not get the particulars.

Q And then as you say in your text, that does not include any pit tubs?

A That's right.

Q Then on page 25, after dealing with charges to mine costs arising out of fire losses and flood losses and so on, you go

on and say, "Also attached hereto are schedules for the years 1943 and 1944, showing expenditures in excess of \$1,000.00, which have been charged to mining costs."

A That's right.

Q And my question is as to whether or not those are part of the expenditures that you start discussing on page 24 under the heading "Charges in Mining Costs Which are of a Capital or Deferred Nature"?

A They are not included in any of those figures, but they are to be the subject of further inquiry with the engineer as to their proper distribution.

Q That is, in addition to this \$1,574,625 shown for Dominion Coal, and \$51,837 shown as to Cumberland Coal, which you said are expenditures that appear to you to be of a capital or deferred nature, there are these additional expenditures in this further schedule for the years 1943 and 1944 showing expenditures in excess of \$1,000.00 which have been charged to mining costs?

A That's right.

Q Well, why do you segregate these expenditures? Have you taken all expenditures of \$1,000 and up?

A No, for those two years.

Q I mean for those two years?

A We have requested the company for the particulars of those expenditures, and that has been supplied.

Q That is of every expenditure made during each of those years by either the Dominion Coal Company or Cumberland Company in excess of \$1,000?

A In connection with equipment.

Q That is what I want to get at.

A Well, if you will look at the schedule at the end of your volume the particulars are shown.

Q Well, was this a statement furnished to you by the company?

A That's right; at our request.

Q Not taken by you from the records of the company?

A Well now, all of those statements, I want you to be quite clear, were furnished to us by the company.

Q Well, I understand that at least in some cases you related the statements to the actual book entries?

A Oh no. We verified that the statements were in total in agreement with the books, but we did not verify the original entries. We would have been here for many months. We didn't verify them as entries; we reconciled the statements with the books of the company, so that there is no misunderstanding as to the nature of the work.

Q Would you mind giving me the number of the schedule that deals with those \$1,000 items?

A It is not numbered, but it is the last two schedules in the folder.

Q Has it got a page number?

A No.

Q One for the year 1943 and one for the year 1944, is that it?

A That's right, sir.

Q Now then, what I want to know is, was the information contained on each of those sheets information handed to you by the company, they stating, "Here, Mr. Morrison, is a list of the expenditures that we made during each of these years in excess of \$1,000 for equipment"?

A That is correct.

Q Or did you go through any record of expenditures for each of those years to ascertain or verify the correctness of that?

A No, we did not.

Q And have you totalled the figures for either of those years? The totals are not shown.

A No, we have not totalled them, because the idea is, we will go over each item with the engineer and ascertain whether or not it should be charged to operations in the year or spread over a period.

- Q And how was the request for the information conveyed? I mean did you ask them verbally or did you ask for it in writing?
- A It was in writing.
- Q Is it readily available? Can you read to us the language of the request?
- A Well, Mr. Simpson may be able to locate it. Under date of 27th June a letter to Mr. Spiers, Comptroller of Dominion Steel and Coal Corporation Limited: "Referring to the operating work orders, are there any other items of an equipment nature which are charged to the mining costs and for which a work order or job appropriation is not made?" and as a result of that inquiry these particulars were forwarded to us.
- Q Well, excuse me, I failed to hear any reference to \$1,000 there.
- A No. In reply to that the company forwarded to us a statement showing all expenditures in excess of \$1,000.
- Q But you had asked for all expenditures, not only expenditures in excess of \$1,000?
- A "Are there any other items." We did not specify the amount and the ---
- Q You didn't specify any amount? When you requested the information you did not exclude any figures, and properly so, I venture to suggest. You asked for particulars of all such expenditures?
- A That's right.
- Q And was there a letter accompanying that statement, or has it a heading, or is there any other language there that gives the company's explanation of the figures that follow?
- A Under a letter dated July 7th, in reply to Mr. Simpson's letter of June 27th, Mr. Spiers wrote: "With reference to the operating work orders, we are enclosing a statement giving a description of these charges for the year 1943 and we are preparing a similar statement for the year 1944 and hope to forward it in the near future. We trust that this

statement of expenditures will meet your requirements."

Q And then you later received something from the company for 1944?

A Correct.

Q Was there a letter accompanying the 1944 statement? If there is any delay about locating that, Mr. Morrison, I won't press that at all.

A Well, we can't find it at the moment. I feel quite sure there would have been a letter accompanying the statement.

Q I am only going to suggest if the language in that letter corresponds to the language in the letter that accompanied the 1943 statement, then I am not concerned with bothering about it.

BY MR. FORSYTH: Mr. Chairman, if it is important to have this letter, and if its language means anything, let's have it, and if it is not important, I suggest in the interests of saving time let's not bother with it at all.

BY MR. COHEN: I am quite content to have the matter proceed on that basis. I don't want my friend to make any complaint later about time.

BY MR. FORSYTH: I am making it right now about time.

MR. MORRISON: I have the letter now. Under date of August 7th, 1945, addressed to our firm: "Further to our letter of 7th July, 1945, there is attached hereto a statement showing expenditures in excess of \$1,000.00 per unit for new or used machinery, for which work orders have not been issued," and it is signed by Mr. Spiers as Comptroller.

BY THE CHAIRMAN: Why was the amount of \$1,000 taken? There must be some foundation for it?

A Well, the reason being, sir, in an operation of this magnitude one would regard expenditures of less than \$1,000 ordinarily as operating expenses in the usual course. Now there may be an exception to that general statement, but that was the reason.

BY MR. COHEN: Well, you would not suggest that in terms of the advisability of considering how a particular expenditure should be charged, or to what it should be allocated, there is any difference between an expenditure of \$999 or \$1,001?

A Well, strictly speaking, no, but one has to be practical in these things in order to get them on somewhat of a proper basis.

Q Well, you were practical about it when in your letter you asked for a list of expenditures. You didn't suggest then that there was anything impractical about your request?

A No, but on the other hand if I had thought that the other matter was of sufficient importance to warrant a further inquiry for the lesser amount we would have so requested.

Q Then we can close that matter up by having it made clear that you did not so think and you did not make any further inquiries as to expenditures below \$1,000?

A That's right.

Q And you have received no statements of similar expenditures between the years 1930 and 1942 inclusive?

A No.

BY MR. FORSYTH: You have not asked for them?

A That's right, we have not asked for them.

BY MR. COHEN: Now you deal separately with the question of pit tubs, showing a total expenditure during the period 1930 to 1944 of \$1,368,289.10?

A That's right.

Q You excepted that from the calculation at the bottom of page 24?

A Yes, that is in addition to these other amounts.

Q And are they also expenditures which in your opinion appear to be of a capital or deferred nature?

A Yes, that should be spread over a period of years.

Q Now have you anywhere totalled these various expenditures which you deal with here under several headings, and which appear to you to be of a capital or deferred nature?

A No, I think not. I do not think we have a summary anywhere of the total. We have dealt with them individually, and propose of course discussing them with the engineer, but I do not think we have any total.

BY MR. FORSYTH: Which ones are you speaking about?

BY MR. COHEN: I am talking about Dominion Coal now. The total would be, taking the total of \$1,574,625 on page 24, that's right?

A That is the first figure.

Q Then the next would be the totals of the--I was going to say the two statements for 1943 and 1944, but then that would leave us without any ---

BY MR. FORSYTH: I don't see why you should add that at all.

BY MR. COHEN: --without a figure for the intervening years. Whether my friend sees why or not I would suggest we would like to know, and think the Commission would like to know, the total during these years.

BY MR. FORSYTH: Now, Mr. Chairman, I arise to make a little complaint as to time. If, as my friend suggests, the Commission wants that figure it is just a matter of adding it up, and that can be done at any time.

BY THE CHAIRMAN: Of course Mr. Morrison is not in a position to add it up while he has not made a decision in all cases as to what is to be charged to capital or what would be charged to operating expense.

BY MR. FORSYTH: Nor as to the period of time over which it is to be spread, which is an important thing.

BY MR. COHEN: That would hardly enter into a question of addition.

Q. Then at the bottom of page 25 you indicate a further item evidently of the same category, referring only to the year 1935 as to Colliery 12, and to the year 1943 as to Colliery 25 and Colliery No. 18, I take it also in the year 1943?

A. Yes, and all of these things of course will be considered in total when we are discussing with the Engineers.

Q. In the meantime these items you indicate in the same way and for the same reasons as the items on page 24?

A. Yes.

Q. That is that they appear to be expenditures of a Capital or Deferred nature?

A. Yes.

Q. \$83,504.70 as to the year 1935, representing one-half of the cost of Pit Tubs and Tipples for Colliery No. 12; \$22,702.07 for spare Pit Tubs in 1943 for Colliery No. 25, and \$7,711.67 Tubs for Colliery No. 18?

A. Those are some of the items.

Q. And all of these charged to operations during the particular years 1935 or 1943 when these amounts were expended?

A. That is right; charged to Mining Costs.

Q. And to operations?

A. Yes.

Q. Do you know anything about what, if any, position income tax authorities have taken with respect to any of these categories of items which you here indicate?

A. On Schedule Misc. 15 on Exhibit "A".

BY MR. FORSYTHE - Are we discussing the income tax of this company?

BY THE CHAIRMAN - All he is asking is if it was taken into consideration.

MR. FORSYTHE - No, he is asking what disposition the Income Tax Department made of this amount. I don't know of any reason why this income tax return should be the subject of discussion here. What the Income Tax Department did with these items is entirely irrelevant. The Income Tax Department allows depletion of 10%,

which the Emergency Coal Production Board will not allow except under other circumstances. The Income Tax Department has no general rule about these accounts. Either Mr. Morrison is right in his view to the exclusion of other views, or he is not. The attitude of the Income Tax Department on them will not help this Commission any.

BY THE CHAIRMAN - It would to this extent, Mr. Forsythe, I think, that it would be indicative to us if they charged them up to Income instead of Capital. Their view then would be that those items should be charged to Income rather than Capital.

MR. FORSYTHE - Of course we have no opportunity to examine the Income Tax Department.

BY THE CHAIRMAN - It is only an expression of opinion after all.

MR. FORSYTHE - You have this expression of opinion, and you have your own Chartered Accountant. He says there are three ways of commonly accepted practices of accounting in coal mining companies. He says "I prefer No. 2". This Company follows No. 1. Then in between he says there is a ruling of the Emergency Coal Production Board that you can't do this or that, and the Canadian Income Tax Department has no general ruling.

BY THE CHAIRMAN - But surely it will be helpful to some extent. In the final analysis this Commission will have to say what is chargeable to income. Is it not of some value to us to know if the Income Tax Department is charging those things to income, or making them a matter of income?

MR. FORSYTHE - If you think it is of any value to you, you will have it, but I am pointing out that I don't see how it can be of any possible value to you.

BY MR. FRAWLEY - We have it here before us, but I think Mr. Forsythe was objecting to Mr. Cohen spreading it on the record.

BY THE CHAIRMAN - I don't know why it shouldn't be, if we want this as a matter of opinion as to how the Income Tax Department has dealt with this matter.

BY MR. MORRISON - We have prepared it for the Commission so that they would know precisely what it was.

EXM. OF MR. MORRISON BY MR. COHEN (continued)

Q. All I asked was if such a calculation had been made, and then I was going to ask where it would be found, because I am not going to suggest for a moment that it is possible for anyone to read the contents of these books. Now, where is it shown?

A. The answer to your question as to whether or not the Income Tax Department have disallowed any items from the expenditures of this company, the answer is , no they have not disallowed any of them.

Q. That is not very much spreading that our friend should be disturbed about. Is the matter concluded?

A. In so far as up to the year 1941 the Company has received its assessments. That is regarded as being the final of that particular year, but whether it will remain final is a matter for the Department, but it is usually accepted as a finality when the Company receives its assessment.

BY THE CHAIRMAN - That is very helpful to you Mr. Forsythe.

MR. FORSYTHE - I don't think it is. I knew the Company was right all the time. I don't think the Income Tax Department makes us any more correct.

EXM. BY MR. COHEN (continued)

Q. Do you mind if Mr. Simpson verified if in fact, if we add the wages which you indicate on page 24 to the amount of the total expended on "Mine Cars or Pit Tubs" shown on page 25, and the \$83,504.70 and \$23,702.07 and \$7,711.67 shown at the bottom of page 25, reaches a total of \$3,056,932.44?

A. Mr. Cohen, I have no doubt if you add those figures together you will get that answer, but I want to point out that the \$83,504.70 is referred to later on in the Reserve for Renewals and Betterments. I am only pointing it out so that we will avoid duplication.

BY MR. FORSYTHE - You have added that into your figure, and Mr. Morrison is pointing out that you are duplicating something.

EXM. BY MR. COHEN (continued)

Q. We have not had a word, have we, on expenditures for betterments?

A. I am merely pointing out that I said there - "In addition, in

"1935 the reserve for renewals and betterments was charged with \$83,504.70, which represents one-half the cost of pit tubs and tipple for Colliery No. 12. When we come to those reserves there will be other items than that, and I am merely suggesting that probably we should wait until we are discussing those.

Q. Will it also include that \$83,504.70?

A. That is right.

Q. Will you verify the total of Two Million Nine Hundred and Seventy-three Thousand odd, for the items that I have mentioned?

BY MR. FRAWLEY - We have been pretty indulgent, but to have Mr. Simpson kept adding and adding is too much.

BY THE CHAIRMAN - I agree with Mr. Frawley.

EXM. BY MR. COHEN (continued)

Q. I have merely made the observation that my addition brings that figure, and I am not suggesting that it has to be added now, and if there is anything wrong with it, I take it it will be corrected.

On page 26 you deal with "Corporation General Expenses". What does that refer to, expenditures where, in Montreal?

A. In Montreal.

Q. The first total of \$595,391.70?

A. The particulars are shown on the page, Mr. Cohen. While we want to be sure about the general statement, we cannot be quite sure that they are all in Montreal. They are under the main heading of Corporation General Expense.

Q. You say that the details are indicated on page 26. I will not bother you for any further breakdown of that.

A. The details are shown on Misc. Schedule No. 3.

Q. Under Exhibit or Volume "A"?

A. Yes.

Q. Do you know whether this \$120,000 reserve for contingencies is part of the \$595,391.70?

A. In a letter under date of August 22nd, 1945, Mr. Spiers points out - "In any large corporation a reserve is required to provide for contingent expenditures and in our opinion the Dominion Coal Company has been properly charged with its proportion. The

reserve of \$120,000.00 in years 1941, 1942, 1943 and 1944 was not shown on statement 15 for the reason that this statement was originally intended to cover the actual current expenditures only.

Q. Then we are clear as to in that that included in what Dosco regards as Corporation General Expense, and for which it makes a general charge or a charge to all subsidiary companies pro-rated in the way you later indicate, there is an annual reserve of \$120,000.00 for contingencies for the years mentioned, 1941, 1942, 1943 and 1944?

A. I was dealing particularly with page 26, which is for the year 1944.

Q. On page 26 when dealing with the General Expenses, you are taking as an example 1944?

A. Yes.

Q. And the information in the letter you have just read indicates that at least in the years 1941 to 1944 there was a reserve of \$120,000.00 for contingencies in addition to that indicated here making up the total Corporation General Expense that was going to be distributed over all the companies?

A. That is correct.

Q. I don't suppose you have any information as to whether any portion of that \$120,000.00 set aside for at least each of those four years, was actually expended?

A. No, we have no records of the Dominion Steel & Coal Company at all.

Q. I take it you have described these expenditures in the way the Company describe them?

A. Those are the particulars furnished to us.

Q. When they gave you the figures they gave you the language which they thought described the items to which the figures related?

A. Yes.

Q. Did you get any particulars of Special Disbursements \$67,721.00 (page 26). Still part of the Six Hundred Thousand Corporation General Expense for 1944?

A. We have no written information on it, Mr. Cohen. Mr. Simpson inquired as to its nature and was informed it was a charge made by

Montreal to the office here under heading "Special Disbursements".

Q. We appreciate it is made by Montreal.

A. By Dominion Steel & Coal.

Q. All of these charges are made by Dominion Steel & Coal?

A. That is right.

Q. What I am asking for is some information as to the nature of the matters on which this \$67,721.07 was expended, which is called "Special Disbursements"?

A. We have no information.

Q. No information on that at all?

A. That is correct.

Q. And then that total of roughly Six Hundred Thousand is, you say, pro-rated as between the various companies, subsidiaries of Dosco, based on the revenue of each of those companies during the year 1930?

A. That is right. That is the main basic principle of distribution.

BY THE CHAIRMAN - You are not objecting to that item of legal expense there, of \$29,000.00?

MR. COHEN - No, as a matter of fact I was going to call attention to the fact that it was a most modest figure. I think he is underpaid.

BY THE CHAIRMAN - It does not mean that he is getting it all?

MR. FORSYTHE - If we are to take up the time with a discussion of that, I will be glad to discuss it.

EXM. BY MR. COHEN (continued)

Q. Now then how about companies acquired, or that came into Dosco set-up, (I have heard it called Empire I think) after 1930? Do you still use their revenue during the year 1930 if in fact they were operating then?

A. I have not got a breakdown of the distribution each year, or what happened when any new company came in.

Q. Canadian Tube & Steel for instance. That was purchased, if I remember rightly, somewhere around 1941.

A. It does not appear to be the subject of any charge.

Q. I was rather curious about that.

BY MR. FRAWLEY - There are plenty of them. Canadian Bridge Engineering Co. Ltd., Graham Nail & Wire Products.

EXM. BY MR. COHEN (continued)

Q. Well we need not take time on that Mr. Morrison if we are clear that the only companies in fact charged for any portion of this \$595,391.70 expended in 1944, which is used as a sample year, for Corporation General Expenses, are the companies listed on the bottom of page 26 and the top of page 27 of your report, Exhibit 205?

A. That is correct.

Q. And of that amount Dominion Coal Company itself in 1944 spent or was charged with \$249,353.62?

A. That is correct.

Q. During the one year?

A. During the one year.

Q. Now can you tell us anything at all about the expenditures you show on page 28 under "General Staff and Superintendence" amounting for the year 1944 to \$548,750.72?

A. In what regard?

Q. First of all, just what is it, General Staff and Superintendence?

A. That is the general title of the expenditures of General Staff and Superintendence. I don't know that I can describe it very much better.

Q. First of all it is General Staff and Superintendence of the Dominion Coal Company?

A. That is right.

Q. To what level does the calculation go, included within the terms "General Staff"?

A. I don't know.

Q. This is a charge for salaries during that year?

A. That is right.

Q. That is an expenditure, an actual expenditure in 1944 for salaries to those constituted "General Staff and Superintendence" amounting to \$548,750.72?

A. That is right.

Q. Why do you make a separate calculation for "Colliery Management" on the top of page 29?

A. They are shown separately on our sheet, for the information of the Commission as to the relation between the two.

Q. Is the latter item of Colliery Management included in the general item which appears on page 28 at the bottom of the page under "General Staff and Superintendence"?

A. No, it is entirely separate.

Q. You separate it for the purpose of classification and additional information?

A. Schedule "M" - 3, which is the mining costs for the year 1944, will show you those particular items separately shown on the mining costs sheets, so that they are separate and distinct items.

Q. Now then the items which you give for the years 1936 to 1944 just in the middle of page 28.

A. Yes.

Q. And which appear under the general heading "Proportion of Montreal Salaries.

A. Yes.

Q. Is that something separate from the item "Corporation General Expenses \$595,391.70" that appears on page 26?

A. Oh yes, an entirely separate item.

Q. First of all, is there any particular reason for restricting the particulars to the years 1936, and 1939 to 1944 inclusive? That excludes 1937 and 1938 and 1930 to 1935.

A. Only for the matter of endeavoring to limit the amount of detail.

Q. These are taken as an example?

A. As specified years, but there is no special reason for taking these particularly, but just in an endeavor to reduce to some extent the detail.

Q. When you say "The charges to the Coal Company for this period are summarized herounder", just what are you saying, which coal companies?

A. The coal companies that were previously referred to on page 27, Dominion Coal Co., Cumberland Railway & Coal Company, Old

Sydney and Acadia Coal. The associated coal companies.

Q. Does there appear anywhere in red volume "A" a breakdown as between those companies?

A. On sheets 12 to 14 Miscellaneous.

Q. And you told us that the Six Hundred Thousand Dollar item was charged to the different companies based on the 1930 money revenue?

A. Yes.

Q. What is the basis for distributing the charges under the headings "Salaries Officials" and "Salaries General"?

A. On page 28 I say: "The basis of proration is the same as in the case of the corporation expense, viz. the revenue of the companies for the year 1930."

Q. That is, the 1930 basis?

A. Yes.

Q. And do you know if it can be said equally that the companies, and the only companies charged by Dosco for the items expended under "Salaries Officials" and "Salaries General" are the companies listed at the bottom of page 26 and the top of page 27?

A. We have just shown in Schedules Misc. 12 to 14 particulars of the charges to the coal companies. I don't know that we have a distribution as to the other companies.

Q. You show the distribution of the Corporation General Expense?

A. Yes.

Q. And the companies who together collectively share that distribution. Can you obtain similar information with respect to distribution of the item "Montreal Salaries"?

A. I presume it could be obtained. On Schedule 14 Misc. we show it under other companies. The percentage is there. We have no breakdown.

Q. All I want to know is the companies who share in absorbing those Montreal salaries are these particular companies mentioned on pages 26 and 27, and no others?

A. I would have to get the information; we have not got it at the moment.

Q. I may be a little premature in trying my friend's case. Perhaps

he appears under this heading "Montreal Salaries"?

BY MR. FORSYTHE - Would you be interested to have the answer?

MR. COHEN - Yes, but not in the hall.

MR. FORSYTHE - Right here. I do not appear under the heading Montreal Salaries.

EXM. BY MR. COHEN (continued)

Q. I would like to ask you something about the transactions of the company with respect to American coal. That, I think, appears on Schedule 7 Misc. and you summarize the information here on page 29 of the Exhibit we are now examining, 205. Would you mind taking a look at that Exhibit, and I was going to ask you to confirm the change and profit and so on, but I see you have done that in your report 1939 to 1944, that is that where Dosco - is this Dosco you are dealing with?

A. The Dominion Coal Company.

Q. That where Dominion Coal handled 85,641 tons of American coal in 1939, in 1944 it handled 1,753,693 tons of American coal?

A. That is right.

Q. And where its books show a loss in 1939 of \$105,019 on handling the 85,641 tons, the books show a profit for 1944 of \$438,731 on the handling of the 1 $\frac{3}{4}$ million tons, roughly, speaking of American coal?

A. Subject to the observation on page 29 that the above profit is before charging in amount for administration or other overhead.

Q. Did you say at the bottom of the page?

A. Yes, almost at the bottom of the page.

Q. When you use the term "Sales Value" how do you arrive at that figure? Is it Sales Value, or Sales Prices? You suggested before that they were synonymous?

A. Yes, I am not making any distinction between the two.

Q. The total amount for the charges of the sales made by Dominion Coal Company of the 1 $\frac{3}{4}$ million tons of American coal?

A. Yes.

Q. Is there anything indicated in your more detailed sheets, Exhibit "A", as to where the coal went to?

A. You mean the sales?

Q. Yes?

A. No, not that I can recall. I don't think we have any breakdown of the American coal as distinct from domestic coal.

Q. Or the sales channel?

A. No.

BY THE CHAIRMAN - It was something that they learned from the results of the 1918 war where they lost their sales, and this time they took advantage of being able to buy American coal to fill their contracts and retain their clientele, if you can call it that. It was a very good bit of business, I think.

EXM. BY MR. COHEN (continued)

Q. With respect to the Reserve for Subsistence claims referred to on page 30. Have you any particulars as to the actual amounts paid over the period?

A. That was Subsidence, not Subsistence.

Q. I didn't think the company set up a reserve for subsistence claims. Not a bad idea. Does R-1 give us the actual expenses for any period?

A. The total is summarized, but we have not the particulars.

Q. What is the total of that reserve at the end of 1944?

A. \$716,793.15.

Q. The account evidently was opened, or starts in 1929. Is that when they began setting up the reserve?

A. That is the balance forward.

Q. Can you tell us at all as to the actual amounts paid out between the 31st December, 1929 and the 31st December 1944 for claims of this kind?

A. Yes, it is shown on page 30 of the report. Expenditures \$238,380.59. That was the total amount paid out during that period.

Q. In other words this reserve set aside during the years 1930 to 1944, some \$830,000, and only expended some \$238,000 on that item during that period?

A. Yes.

Q. With the result that the reserve holds some \$592,000 more than it paid out?

A. Yes, more than it paid out.

Q. More than was paid out by the Company during that period?

A. Yes, that is right.

Q. Now when you talk next about provision made annually, about charges to mining costs on a per-ton basis, are you referred to charges with respect to this reserve?

A. Yes, the provision that is made to that reserve annually is done by charging mining costs and crediting the reserve, and when expenditures are made these are charged against the reserve.

Q. And in estimating mining costs an item of 30 cents is charged on each ton of coal?

A. That is typographically wrong, it should be 3¢ per ton.

Q. It has now reached a high figure of 3¢?

A. That was also eliminated at the time the correction was made.

Q. Now what are these reserves. You have R-1 Subsidence, and R-2, what is that? Are they dealt with under separate Schedule numbers?

A. Yes. That is the number of the Schedule, R-2.

Q. For all of the reserves?

A. R-1 is the summary of them.

Q. They are first of all, subsidence, and you gave us the total of that as of the end of December 1944. The next is Contingencies?

A. Right.

Q. Any particulars as to Contingencies?

A. The amounts in your statement I think you will find on page 30-a, which was supplemented into your report, are the particulars of the expenditures, totalling \$484,881.89. These are the particulars of the amounts charged against that reserve.

Q. Out of a total of \$695,664?

A. Yes.

Q. Leaving \$210,000 of that reserve not used?

A. To the credit of that reserve at the 31st December, 1944.

Q. Your next is Reserve for Preferred Stock?

A. Right.

Q. Well what is that made up of, the difference between the par value of any preferred stock acquired and the amount paid for it?

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A. The cost of redeeming it totalled \$172,000 odd.
the difference between

Q. I understand it to be the par value of such stock and the actual amount paid to the purchaser for redeeming it?

A. Yes.

Q. And that is set aside as a reserve?

A. The difference is set aside.

Q. Reserve of what?

A. It is not taken in as a revenue item and does not represent income. They may have to pay more at some time and could use this, but I am not saying that that is what it is for.

Q. The heading is?

A. "Preferred Stock Discount".

Q. Now then the next item is Sundry Operating Reserves?

A. Yes.

Q. And you give us the total of that?

A. Yes.

Q. That is, the \$150,000 not used there is dealt with the same as the others?

A. \$146,419.13, yes.

Q. Your next reserve is Workmen's Compensation Board?

A. Yes.

Q. And then, Betterments and Extensions?

A. Yes, for both Dominion and Cumberland companies.

Q. And they are set out separately as to each company?

A. No, these are combined.

Q. First of all give us the amount as of 31st December, 1944, you have given it here I believe.

A. \$2,315,459.16.

Q. When you spoke earlier about the \$85,000 being included in the item of Betterments and Extensions, is this what you had in mind?

A. That is right.

BY THE CHAIRMAN - That reserve for Preferred Stock. Does that at all resemble Sinking Fund?

A. No, merely the difference between the par value of the stock and the amount which the company had to pay to redeem that stock.

BY MR. FORSYTHE - We bought the stock for sinking fund purposes and it so happened you could purchase it in the market at that time below par, and having acquired that you had to put it somewhere, and we placed it there, and it might very well be that if we go into the market we would have to pay more at some time. Under the terms of the preferred stock I think that is doubtful, but we might have to if we were buying in the market.

BY THE CHAIRMAN - There was no reserve set up in respect to the bond or share transactions which we discussed yesterday where items were sold at less than par value? They were never set up as a reserve, were they?

BY MR. FORSYTHE - There must have been an item set up to account for the bond discounts, but they would not be the same sort of reserve.

BY MR. MORRISON - Discounts receivable would be an item to be charged off against the operations of the company over a period of years. It would not be a reserve.

EXM. BY MR. COHEN (continued)

Q. In so far as \$600,000 loss in 1912 within the Three and a Half million of indebtedness. Correct?

A. Right.

Q. The lesser sum was in the Company's Treasury to help it pay the interest on the whole of the Three and a Half Million.

A. Yes, but that discount represents in effect further interest that is payable. The interest rate is higher because of the discount figure.

Q. And the effect of having some \$2,900,000 instead of \$3,500,000 will have some effect surely on the earning position of the company?

A. I don't know that that follows at all. It may follow.

Q. At any rate in this case the amount was not credited to operations, it was set aside?

A. That is right.

Q. Now what is the item on page 33 headed "Expenditures of a Capital or Deferred Nature"?

A. These are the amounts that are referred to some time ago, similar

to those under the work orders but charged under now the Reserve for Betterments and Extensions?

Q. That is, similar to the items which I suggested totalled some Three Million Dollars, and that, separate from such items as are set out as 1943 and 1944 on the last two pages of your brief; in addition to those items there are these items which you say are of a similar character?

A. Yes.

Q. Aggregating for Dominion Coal from 1930 to 1944 \$3,873,533.21?

A. Yes.

Q. And for the same years for the Cumberland Railway & Coal Co. \$669,044.48?

A. That is right.

Q. And is there a breakdown anywhere of the items?

A. Attached to your statement, at the end of the statement.

Q. You mean this Exhibit 205?

A. Yes, Exhibit 205.

Q. Now you then indicate that in 1939 a reserve was set up of \$100,000, and during that year that amount was charged to operations in anticipation of the company having to make shipments by rail instead of by water to the St. Lawrence markets?

A. Yes.

Q. Then you go on and say "the condition didn't materialize and the reserve is still carried intact"?

A. Yes.

Q. Dealing with the subject of labor earnings, you give for certain selected years, rates you say, and annual earnings?

A. Average.

Q. And that goes back to Schedule E-1?

A. That is correct.

Q. And there you have for instance all of service averaged at a particular amount?

A. Yes.

Q. Is that right?

A. Yes.

Q. Can we get anything in the nature of a frequency distribution of these figures? How many got above the average and to what extent, and how many below the average and to what extent?

A. Not from the material we have.

Q. If you and I have four meals in two days we average two a day, but if I had three and you one, you would have one meal in two days and I would have three. Now then, I just said that to indicate why I am asking for something in the nature of a frequency distribution.

A. This is the average, and I appreciate that that average does not tell the whole story.

Q. It didn't tell the story at all actually, except the story of the average?

A. That is true.

Q. It does not tell how many are getting less and by what amount, or the reverse?

A. That is right.

Q. Can you get that?

A. I think it would be a tremendous task.

Q. Can you make any inquiry at least as to that, as to how readily available such information might be?

A. I think that should be made now so that we would know if we had to ask, because I think it would be a tremendous task to ask for those figures.

BY THE CHAIRMAN - If the Commission think it advisable, we won't mind the task. We will take it under consideration.

BY MR. COHEN - And I will go over the Schedule itself and there may be some particular items that may call for such a breakdown, and not a request of a general nature.

EXM. BY MR. COHEN (continued)

Q. Now when dealing with the net cost or calculated cost per ton, you are including all the men employed and the wages paid to them?

A. Are you speaking of labor costs?

Q. Yes?

A. Yes.

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Q. And wages paid to them on any account whatsoever?

A. Are you speaking of mining costs?

Q. Yes?

A. Yes.

Q. And have you attempted at all to make an examination of the extent to which men have been working say on maintenance work, and the cost of that reflected in the figures given by you here on page 34?

A. You mean as distinguished from -

Q. As distinguished from loading coal or hauling it or handling it?

A. No. You will find a very comprehensive breakdown of all of the costs in Schedules -

" M-6?

A. M-5 or M-4. I am dealing with M-5.

Q. Is there any calculation (and that does not appear to be set up in the Schedules you refer to) of the amount of maintenance work done by men during these selected years that you indicate on page 34, on maintenance work as compared with other years?

A. No, not unless you can find it from a comparison of these Schedules.

Q. Just one further item. Would you mind looking at Schedule M-5 and I have here prepared a table indicating the number of men in 1939, the number of men in 1941, and the number of men in 1944, all taken from your Schedule, and the respective days worked, and also the production, and the tonnage production per man for the year, and production per man per shift. I wonder if, without taking the time of the Commission now, that might be now considered as read, and then if you would verify that I have the figures here correctly.

BY THE CHAIRMAN - Have you got the Schedule?

BY MR. COHEN - This is information I have taken from the Schedule.

BY MR. FRAWLEY - Will you please state it.

EXM. BY MR. COHEN (continued)

Q. I have prepared a table which indicates that in 1944 under the heading of Mine Labor there were 1055 at machine mining and 453 at longwall; that they worked 268 days, and that they produced 3,000,932 tons of coal.

A. The first two figures I can reconcile; the 1055 men for machine mining and the 453 for longwall. The next figures, I would like to know where you got them from our statements.

Q. The figure you now ask about is the 268 days?

A. There are 269.2 days shown on Schedule M-3 for the year 1944.

Q. We went before you then. We will proceed on the actual basis shown on your schedule.

BY THE CHAIRMAN - If there is any difference in the figures in anything Mr. Morrison has produced, and what you have, I think you should be prepared to put it in by a witness perhaps.

BY MR. COHEN - We desire to use Mr. Morrison's figures. The figure 268 days was taken. What we have been trying to get at is on the basis of the number of men engaged in doing work that comes within the category of mining labor, and on the basis of the number of days they worked how much they produced per shift per man, and how that compares with 1941 and 1939.

BY COMMISSIONER McLAURIN - Is that a question?

BY MR. COHEN - I was explaining to the Chairman. He asked if we were suggesting any difference in the figures. Since it is compared on a week basis, different to the one that is here, I will have the calculation corrected to that extent.

BY MR. FORSYTHE - I would like to make one more earnest plea. It is unique in my experience to have persons make mathematical calculations. If my friend has these made, why not hand them to the Commission. But to have the Accountant here cross-examined merely to do sums in arithmetic is merely a waste of time, and I don't think the record gains anything by it.

BY MR. FRAWLEY - I objected to that before, and the Commission upheld me.

BY MR. COHEN - If he has not got it, and you want the calculation made separately from this witness, in that event I must have in this figure the particular figures that will enable me to make the calculation which I think will be helpful, and I will hand a statement of that to the witness, which he can check, and the argument can be presented later as to the significance of it.

EXM. OF MR. MORRISON BY MR. COHEN (continued)

Q. There was a sheet handed to me headed 30(a) which I take to be an insert in the exhibit, and I am closing with that.

A. I made reference to it earlier as an explanation of the amounts that were charged against the contingent reserve.

Q. I want to ask you about three or four amounts here. In 1930 Special disbursements paid at Montreal \$34,552.00. You will remember of the Six Hundred Thousand General Corporation Expenses of 1934 there was some \$67,000 of Special disbursements in Montreal. What is a special disbursement paid at Montreal?

A. I don't know.

Q. And I suppose that applies also to \$3,250. in 1932?

A. That is correct.

Q. And in 1935 there is Special disbursements paid at Montreal of \$40,387.51. Do you know what that is?

A. No sir.

Q. And then there is an item in the same year, Paid to the Estate of C. B. McNaught? I take it the former President of the Corporation, or Dominion Coal Company?

BY MR. FORSYTHE - President of both.

EXM. BY MR. COHEN (continued)

Q. Do you know the basis of that payment or calculation of that amount?

A. No, I don't.

Q. And these amounts are taken out of the amount set aside by the Dominion Coal Company for contingent reserves?

A. That is right.

Q. All of these amounts on page 30?

A. Yes, the details being shown at the bottom of page 30.

Q. I meant 30(a)?

A. I was referring to the reserve itself; on page 30 at the bottom of the page.

Q. The reserve for contingencies is set up?

A. Yes.

Q. And these amounts on 30(a) are paid out by Dominion Coal Company

and charged up against the contingent reserve?

1. Right.

2. And those payments include in 1930 \$34,552. Special disbursements paid at Montreal, and in 1932 \$3,250.00, and in 1935 \$40,387.51, and in 1933 \$6,220.00, all of those items spent by Dominion Coal Company Limited and marked Special Disbursements paid at Montreal?

A. That is right.

3. You can't help us in any way as to what those special disbursements are?

A. No.

BY MR. COHEN - That finishes my examination, except the most I might want would be a minute or two to verify some of the figures for the purpose of this table I am speaking of.

12:00 Noon - Hearing adjourned until 2:00 P.M.

2:00 O'CLOCK P.M. HEARING RE-CONVENED

BY MR. COHEN - I wanted to say my Lord, firstly with respect to the particular item, that is the figures relating to the table that I was speaking to just before we adjourned, that I will have a communication forwarded to Mr. Frawley indicating, so-to-speak putting the question through him, and then Mr. Frawley can obtain the reply, and in Ottawa it can be read into the record.

And having regard to the element of time, and I am not untroubled about the fact that I have taken a fair amount of time, I wanted to say firstly about the cross-examination of Dr. Cameron which was left an open question when I left Halifax, and then as to the examination of Mr. McCall with respect to whom I made a request yesterday, and then, as I advised Mr. Frawley, there were a few questions I wanted to ask Mr. McLanders, the gentleman who presented the Sales Department brief, that similarly with respect to all of them I follow such a procedure, that I write to Mr. Frawley and indicate the questions, and at the proper time they can be read into the record.

BY MR. FRAWLEY - That is quite satisfactory.

MR. J. K. MORRISON RESUMES THE STAND - EXAMINED BY MR. FORSYTHE

Q. Mr. Morrison, I think we might start with this; that in the preparation of these accounts you have proceeded, or at least the accounts themselves seem to be set upon the entirely hypothetical basis of the ultimate action of the Emergency Fuel Production Board?

A. In respect to the years 1942, 1943 and 1944 it is dependent upon the results which will develop upon the claims that have been made to that Board.

Q. It would follow from that that in so far as these amounts of what you would call a capital or deferable nature, which have been charged to operations in the years preceding 1943 and 1944, that those would have pretty well worked themselves out?

A. It all depends on the period of time that will be given to these particular expenditures as to their usefulness each year.

Q. But on the other hand in the years preceding 1943 and 1944 a great many of these expenditures were made as against reserves which had been previously set up at a calculated rate per ton of somewhere around 12 cents?

A. In some cases.

Q. In some cases?

A. There are a combination of circumstances. The accounts have not been kept on a uniform basis throughout the whole period, so we can't say as a general statement that they have been down as reserves or some other method.

Q. But they have been down on this basis, that no expenditure has been capitalized which would not increase production or decrease cost or extend the life of the mine?

A. That is the basis of the Company's accounting system generally.

Q. And that have been so ever since it began?

A. Well for many years. So far as I am aware there were no changes from that policy.

Q. And over a period of years that method of accounting will, as the method which you prefer would, equalize the expenditures and average out the costs?

A. Over a period of years, yes.

Q. So that so far as the cash position of money in the enterprise

is concerned, the method of accounting makes no difference?

A. In so far as money is concerned, the money will have been spent by the company whether you capitalize it and spread it over a period of years, or charge it to the one year's operations.

Q. And your fundamental objection is that it may be by charging a large item of cost to a certain year, the costs in that year will be very large.

A. That is right. It was merely for the purpose of placing before the Commission and showing to the Commission as accurately as possible the costs within that year of producing coal.

Q. And you will, I suppose, concede that under the conditions that have existed in this industry since 1940, the adoption of any other method of accounting than that which the Company has been obliged to follow in the last two years might seriously interfere with its working capital?

A. No sir, I would not agree with that.

Q. You are not allowed under the Emergency Fuel Production Board to increase your reserves?

A. Which reserves?

Q. Any reserves for betterment?

A. You are speaking of book reserves as against reserves of coal?

Q. I was talking of accounts.

A. You are speaking of the book reserves?

Q. Yes, and the Emergency Fuel Board will not allow those reserves to be increased at its expense?

A. That is very true.

Q. So that if the Company was obliged to capitalize expenditures which it has charged into operations, to the extent that it is obliged to do that and does not recoup that money from the Emergency Fuel Production Board its working capital would be diminished?

A. It would be less, but it does not follow that the Emergency Fuel Production Board will not permit items of a capital nature to be charged to expense if they take the opposite view, which they have done in many instances. The Coal Company puts

something into operating expense, and the Emergency Fuel Production Board says it is not a proper charge to operating expense, it should be capitalized.

Q. If the Emergency Fuel Production Board insists upon capitalizing those expenditures, then of course to that extent they will not be recouped from them in the claims under Dosco?

A. In that year, but they may be recouped in the following year for its proportion.

Q. In any event the net working capital of the Company will be diminished to the extent that it does not recoup it?

A. In that year.

Q. And one cannot recoup it..

A. Until it is spread over the existing year, and then it can be recouped if the Emergency Fuel Production Board is still in operation.

Q. The net working capital of this company was what at 1940?

A. I think if you will look at this Balance Sheet of 1940 you will see that the net working capital was some \$4,996,000.

Q. Dominion Coal Company Limited?

A. Yes.

Q. And I take it it deals only with that company?

A. Well it deals with that company and those whose accounts are consolidated with it.

Q. I was just wondering if it included its subsidiaries. I gather it does? In 1941 the working capital was?

A. The position according to this statement was \$2,873,494.89

Q. Or a decrease of something over Two Million Dollars?

A. Two Million One Hundred Thousand approximately.

Q. You will concede I suppose that it is important for this Company under the conditions which prevailed in the war years, to maintain its working capital position at the best possible level if it is to have any measure of commercial success in the post-war years?

A. Well of course that is always a necessary thing to be retained, its working capital. But if a company is making a loss it is of necessity reducing its working capital.

Q. And if a company has set up its basis of accounting on protecting

expenses and betterments on a reserve of let us say 12¢ per ton and then it is consistently informed that it cannot do that; that it must capitalize expenditures of a certain type which in its accounting previously had been paid from reserve or charged to operating, that company is placed at a disadvantage?

A. It is only told for the purpose of receiving subsidy, that it cannot do those things.

Q. But the purpose of that is that the company is not going to suffer loss?

A. Yes, in accordance with the definition laid down by the Emergency Fuel Production Board as to what is proper operating expenses.

Q. And also that it is to make a profit of 15¢ a ton?

A. Yes, with the same qualifications.

Q. Well under the system of the Emergency Fuel Production Board, if any credit is given in the operating account of the Company for expenditures made, whether charged to reserve or operating, over the periods preceding, that is from 1942 back?

A. Well of course I don't know how the Emergency Fuel Production Board in this particular case have dealt with your accounts. If they are going to institute a system for their purposes of 1942 and 1943 and set down as a basis the spreading over of these expenditures, then they are in duty bound to look back and spread over the expenditures of previous years in the same manner.

Q. And if you were attempting to set up the accounts of this company on the basis you say you prefer, you would feel in duty bound to do the same thing?

A. Yes, and we have so reported in our submission.

Q. I have read your report, and I may ask you a question that repeats it, but I know what you reported.

A. Yes, but I do want it clearly understood that we appreciate the situation,

Q. And of course until the ultimate action of the Emergency Fuel Production Board in respect to the claims submitted to it is known, then the financial position of these companies is really rather a mystery, is it not?

1. It is certainly not definite.

Q. And under those circumstances for anybody to suggest in any definite way that the reserves have been increased or diminished during those two years, 1943 and 1944, or that the company has made this year that profit, is simply attempting the impossible?

A. It simply cannot be done. It is not proper to say that these are the final accounts until some millions of dollars have been specified to your company from the Emergency Fuel Production Board.

Q. There are one or two matters that I wanted to go over, and perhaps I can work in reverse and clear up some things in regard to the smaller operations first. In the first place, in respect to Old Sydney Collieries. In your report I notice you outline on the basis of the Company's figures an increase in reserve of \$138,000 in round figures?

A. I think that is so. Exhibit 207, page 11.

Q. Now of course that statement is in itself correct, but if you took into consideration the reduction in the bad debt reserves for the same period of time, you will get a net figure there about \$52,000 less, will you not?

A. I have taken the net for the moment.

Q. If you check page 3 and page 11 together, I think you will find what I mean. Exhibit 207.

A. Yes, on page 15 Mr. Forsythe, of the Exhibit 207, we have the details of the bad debt reserves.

Q. But when you state that the company has a net increase in reserves of \$138,000, that is not quite a correct statement, is it?

A. Did we say reserves generally, or operating reserves?

Q. You say on page 11 - "A summary of the provision from profit and loss and the charges for the reserves for the period subsequent to 1st August, 1938, is tabulated hereunder."

A. Yes.

Q. And then you say - "Net increase in Reserves \$138,425.98."

A. May I point out that that is headed "Summary of Operating and Contingent Reserves" so we don't include the bad debts.

Q. If I include the bad debts as coming within reserves, the net position of the Company is that from 1938 to 1944 its reserves

have increased by Eighty-six Thousand plus?

A. That would be the difference between the \$138,425.98 and the \$52,000. That is right.

Q. I didn't understand you to say Mr. Morrison that the reserves which this company has set up are excessive?

A. No, I didn't say they are excessive. I point out that when dealing with a number of your accounts on the reserve basis, that the thing to be guarded against is the over-provision for reserves, because in effect they are part of your surplus account.

Q. But you don't suggest in Old Sydney Collieries there has been any excessive provision of reserves?

A. No, but we do point out -

Q. I am not asking you that, but what you didn't point out.

A. Well it would appear that from the period of 1938 we had Six Hundred Thousand of reserves, that it increased to \$750,000, and it did appear that these were unnecessary when you had \$600,000 at the beginning of the operation.

Q. You had overlooked the fact of the bad debt reserve? You charged it in.

A. I didn't take the bad debt reserve into account in that computation.

Q. During the last six years it has been extremely difficult for people to secure labor and materials to do the work necessary to be done?

A. That has generally been the experience in the war years.

Q. So if you take that fact into consideration there may be, we cannot tell but there may be, it might quite possibly be that the provision for reserves over the past few years has not been adequate?

A. Well I am afraid I cannot quite follow that reasoning. The fact that we had a shortage of labor and materials over the past few years, I don't know how the building up of reserves will affect it.

Q. I am suggesting that on the basis of equalizing costs, that following the system of accounting they do there, if they set

up reserves on a tonnage basis, then although they are unable to spend the money because of the shortage of labor and materials, at least costs are equalized and when the money can be spent you get the desired result.

1. In other words you are providing for deferred maintenance by this method.

2. And if they cannot get the necessary labor and materials?

A. That of course is open to the question as to whether the mine or property in question has not been maintained on a proper basis because of that.

1. But I am suggesting to you have to take the factors over a considerable period of time in any enterprise before you decide whether these reserves are excessive, or adequate, or inadequate?

A. Of course that has to be taken into consideration.

2. And it was not your task to do that?

A. In directing attention to the reserves we thought the Commission would do that.

2. I am talking of you?

A. I am reporting to the Commission.

1. All I said was that you didn't feel it was your duty to decide that?

A. The adequacy of reserves?

2. Yes?

A. No.

2. And you simply ask the Commission to consider this question?

A. That is so.

2. Now you in your remarks about Old Sydney, you call attention to the fact that there had been a decrease in shifts worked by mining labor, and an increase in shifts worked by other labor?

A. That is right.

Q. Was that the one in which you said the production of coal was about equal?

A. On page 19 of Exhibit 207, and it was dealt with also in exhibit 204.

Q. Page 19. I understand in all these comparisons you make, you

take either a year in which the production of coal is comparable with the other year, or a year in which the number of shifts worked at the face is comparable?

A. Right.

Q. And in this year took 1939 in which there was 608,000 tons output, and the year 1944 in which there was 610,000 tons output?

A. Yes.

Q. And your summary shows that the shifts worked surface labor increased by 12,000 shifts, and underground labor increased by 10,000 shifts, and the mining labor decreased 11,000 shifts?

A. Yes.

Q. And you feel the company should explain why there had been this increase in shifts without a corresponding increase in the production of coal?

A. Yes, and whether if anywhere else the labor might have been used for other purposes.

Q. And you were anxious to know if there was any capital involved?

A. That was the whole basis of this comparison.

BY COMMISSIONER McLAURIN - I don't understand that.

BY MR. FORSYTHE - One of the questions Mr. Morrison asks, he says: Does this increase in the number of shifts worked with decreased production, mean that the shifts have been on capital improvements rather than on production?

EXM. OF MR. MORRISON BY MR. FORSYTHE (continued)

Q. If I put it to you in 1944 the collieries worked 44 more days than in 1939, and that their average operating surface force in 1944 was 217, then on that basis you would have the increased number of shifts, of 217 multiplied by 44.

A. That is right.

Q. So I give you the figure of 9548. Then if in 1944 the surface force was 9 units higher than in 1939, you would have an additional $237\frac{1}{2}$ days multiplied by 9. If you got 9 more surface units and multiplied by the total number of shifts in 1944, you will have that many more extra shifts?

A. Yes, as to the number of shifts. The total number of shifts, which

in 1944 was 339,000.

Q. I am speaking of Old Sydney.

A. The total number of man shifts were 339,000 according to Exhibit 207, page 19.

Q. I am getting at the increase.

A. We are speaking of the totals now.

Q. No, I am saying if you have in 1939, $193\frac{1}{2}$ working days, and in the year 1944, $237\frac{1}{2}$, you have immediately 44 more shifts of surface labor?

A. Right.

Q. And if you take your average working force in 1944 as 217, then the product of those two multiplied together is the extra number of man shifts you will have due to that fact alone; the number of additional shifts?

A. You said an average of 217.

Q. Yes, and 44 more days.

A. I am trying to follow the suggestion which I am not quite clear on at the moment.

Q. All I am saying is, if you have 200 men working and they work for 44 days, that will be 8800 man shifts?

A. Yes.

Q. And if you have these 8800 man shifts because of the days worked, that would account for some of the increase?

A. It would account for the number of man shift increases, but I wanted to find out what they were doing.

Q. But we have to find out how many there were?

A. Quite true.

Q. And if you increase the surface force in 1944 over 1939, you have to take the total number of days worked and multiply by the additional unit?

A. Yes.

Q. So I gave you 9548 shifts, and another $237\frac{1}{2}$ days multiplied by 9, or 2137 shifts, so that accounts for 11,685 of the shifts?

A. Right.

Q. I am not going through the same thing in underground, but I will

say that the increase there is in appearance more than that, more than the increase you show, but the operating force underground was 104 units less, so you have to take them off. Now in the producers, or average daily producing force at the collieries in 1944 there were 247 men as compared with a force of 386 men in 1939. Now in 1944 the producing force on the payroll numbered 319 men; a force sufficient to fill the working places and produce capacity output if they had all been at work. Now in 1939 absenteeism was not in excess of 10%, and you had a small excess force as you can see by 386 over 319, to fill the places of those absent from work. But in 1944 absenteeism amounted to 36.1%, and I suggest to you as on those figures the decrease in shifts at the face is amply accounted for?

A. I follow the calculation.

Q. You are, I suppose, aware of the fact that in the production of coal you have to man the datal force as long as you are working the mine, you have to have the datal force there?

A. I am not familiar with that. That is why this particular question was directed to the engineer.

Q. All you know is?

A. Equal production in this particular instance.

Q. It is a relatively lesser production?

A. 608,000 and 610,000.

Q. Well a relatively lesser production in 1944 as compared with 1939, taking into account the number of shifts worked in the latter year?

A. The tons per man over all is 1.86 in 1939 and 1.80 in 1944.

I directed the question to the Engineer from the point of view that as an accountant I realized there was a seeming discrepancy here between the amount of labor employed to take out the same tonnage, and directed the question, would that be caused by the company charging as an operating expense items of a capital nature that was done by labor?

Q. Did you make a comparison of the number of shifts in 1940 as compared with 1941 for the production of coal?

A. Not in those particular instances.

Q. In the Dominion Company?

A. I don't recall the years taken. I enumerated the ones taken in exhibit 204, and I would refer you to it. In the Dominion Company the years we took were 1936 and 1944, on page 8 of exhibit 204.

BY MR. FRAWLEY - It might be some guide to the Commission. Do your clients take the position that none of these extra man shifts were accounted for by the fact that they might be working on work of a capital nature?

BY MR. FORSYTHE - Yes.

Q. They do take that position, that none of it can be accounted for in that way?

A. Yes, that is as I understand it. I don't know to what extent that position would have to be qualified by the adoption of a different system of accounting, and I am not sure it would not have to be.

Q. I think it is something that the Commission will have to go into.

BY THE CHAIRMAN - On Capital Expenditure? Should it not be properly directed to Maintenance?

BY MR. FRAWLEY - Deferred Maintenance we call it.

BY MR. FORSYTHE - I understand what Mr. Morrison meant; with other than the production of coal. I am not prepared to say now that if you adopt Mr. Morrison's system of accounting, or the Emergency Fuel Production Board's system of accounting, that someone might not argue that some work was done there that was of a capital nature. But it comes back in the end to the same thing, and I can imagine it would be very easily separated out.

EXM. OF MR. MORRISON BY MR. FORSYTHE (continued)

Q. But it must be quite obvious to you Mr. Morrison, that if you have this mine, or any mine working producing coal more days in one year than another, that you will have more man shifts in the year you work more days?

A. That of course is true.

Q. And then if you are not getting the amount of coal that you got on those working days, and not spending it on capital, you are

not getting the same production per man?

A. That follows.

Q. And it is very obvious from the records of this company from 1940 to 1944 that we have been continually getting less coal per man day, or per man shift?

A. That has been demonstrated by the records.

Q. Now there is another thing that you brought up and it occurs in your comments on Dominion Coal in your report No. 205, and it relates to the Sydney & Louisburg Railway operations and the payment of the freight by Dominion Steel & Coal, and I don't think you need to even refer to the page of the report. In brief, Mr. Morrison, the situation disclosed by the accounts was that had the Dominion Steel & Coal paid the tariff rates on goods moved by it, the revenues of the Sydney & Louisburg Railway, and consequently of Dominion Coal, would have been increased by a certain amount of money, which as my recollection suggests is \$86,000.?

A. Might I just correct that?

Q. You are going to say that the Dominion Coal Company paid the tariff rate to the Sydney & Louisburg Railway?

A. Yes.

Q. But sweeping aside all that, the net result is that the revenues of Dominion Coal Company were \$86,000 less than they would have been if the Steel Company paid the tariff rate?

A. That is right.

Q. I want to read to you from page 48 of a pamphlet of Dominion Coal Company Limited, Act of Incorporation, Amending and Other Acts, Agreements and Contracts; and on page 48 the following is an Agreement made the 20th of October, 1903, between Dominion Coal Co. Ltd. and Dominion Iron & Steel Co. Ltd., the predecessor owner of Dominion Steel & Coal Company's steel plant at Sydney. Paragraph 11 reads:

"The Coal Company agrees to transport freight over its existing lines of railway to or from the yard or works of the Steel Company, at the rate of twenty-five cents per ton in carload lots, which sum shall be payable whether such freight is

"transported over the whole or a part only of the said lines of railway. The cars shall be furnished and loaded and discharged by the Steel Company. This shall also apply to any new lines which the Coal Company may construct or acquire in Cape Breton County, south of Sydney Harbor and east of a line drawn from Sydney to Louisburg."

I suppose you dealt only with carload lots?

A. We took the figures as shown to us.

Q. I suppose you would concede as a matter of common knowledge that the person who pays the tariff rate on carload lots, does not furnish the cars?

A. That is right.

Q. And he does not necessarily load or discharge them?

A. That is right.

Q. So if the Agreement is adhered to, as I suppose it is, you would have to revise the figure of \$86,000?

A. I would need to know more particulars before I would make any revision.

Q. But if the Steel Company furnishes the cars?

A. If they furnish the cars, yes.

Q. I am saying assuming the agreement has been strictly adhered to?

A. Yes.

Q. Then you would have to revise the figure?

A. I would expect a charge from the Steel Company to the Coal Company for the use of the cars, if they were going to put it on that basis. This is supposed to be, I presume, a saw-off?

Q. The Steel Company has paid 25 cents a ton always.

A. If it paid the tariff rate..

Q. And furnished the cars. I said assuming?

A. Yes.

Q. Then you would have to revise the figure of \$86,000?

A. I would not know how.

Q. But it would have to be revised?

A. There might have to be an adjustment.

Q. And if on the other hand whenever the Steel Company used cars of the Coal Company they paid a per diem charge for them, you would have to revise the figure again?

A. Yes.

Q. In the light of that agreement the figure of \$86,000 would appear to be a larger figure than should be shown?

A. Well it would be subject to adjustment.

Q. And to what extent we don't know?

BY MR. FRAWLEY - Are you making the statement that these cars, which I understood are owned by the Dominion Rolling Stock Company, are actually owned by the Steel Corporation?

BY MR. FORSYTHE - We are not talking of the same cars. The Steel Company owns a lot of cars which they supply to move their own freight.

MR. FRAWLEY - You say that clause has been strictly adhered to?

A. Yes, and whenever they could not furnish the cars, they were always charged a per diem rate.

MR. MORRISON - In order that the whole accounts shall be fair, should we not have from the Company a statement showing just what that adjustment should be. We have no desire to make a statement that is incorrect because of lack of further information.

EXM. BY MR. FORSYTHE (continued)

Q. This Commission will get whatever information it wants. I am not saying you made an unfair statement. You said on the face of it there was an \$86,000 loss, and I am producing the agreement and saying if it was lived up to you would have to adjust the figure?

A. Yes, but we are not in a position to adjust the figure, and I say in fairness to the Commission..

Q. Anything the Commission thinks in fairness should be done, will be done Mr. Morrison, don't worry about that.

A. Only in fairness to us I think anything in this accounting that should be adjusted, should be done.

BY MR. FRAWLEY - Let us clear it up.

MR. FORSYTHE - Do you expect me to count up the number of these cars?

MR. FRAWLEY - Will you ask your clients some time, and ask them to furnish that information.

MR. FORSYTHE - My clients are here listening, and they will see that you get anything the Commission wants.

EXM. OF MR. MORRISON BY MR. FORSYTHE (continued)

Q. Now with respect to the Acadia Coal Company, you there made some suggestions that there had been, what shall I say, a certain, not a theoretical but some sort of a loss on sales of coal made to the allied steel companies in the Scotia group, and my recollection is that that figure totals some \$650,000?

A. Right.

Q. And that is found in Exhibit 206 at page 7?

A. Yes.

Q. Now the first thing I would like to ask you about that is whether you had any opportunity or occasion to compare the quality of coal sold to these steel units with the quality of coal sold to the general public, that is to the other customers of the Acadia Coal Company?

A. Well the Sales Schedules in the Exhibit "B" for identification, gives some detail, I don't know whether it is sufficient for the purpose you have in mind, of the amount of coal that is involved. That is in S-4.

Q. S-4 says mine-run and slack?

A. Yes.

Q. You will concede at once that the percentage of slack would be a very important factor in that?

A. It certainly would be.

Q. And if I indicate to you that in 1942, looking at page 7 -

A. This is Trenton Steel Works, yes.

BY COMMISSIONER McLAURIN - This classification is mine-run and slack?

A. Yes, combined.

EXM. BY MR. FORSYTHE (continued)

Q. If you will look at page 7 of Exhibit 206, and there you have a price of \$5.22 to Trenton Steel?

A. Yes.

Q. And \$5.95 to the public?

A. That is right.

Q. Now if I inform you that the \$5.22 price represents 60% slack,

and the price to the public represents 10% slack, you would say you can't compare the two things?

A. That is right, to that extent, with the variation. Before we leave that, Mr. Simpson has directed my attention to the year 1942 and the sales to Trenton Steel Works Ltd. in that year were 48,670 tons, and a record of the company shows that the run-of-mine was 20,002 tons, and slack 28,668 tons.

Q. I would like to see the record of the Company, and perhaps at the same time you might show me the same record of the company with reference to sales?

A. Trenton Steel Works Ltd. run-of-mine 20,002 tons, and slack 28,668 tons, making a total of 48,670 tons, which is shown on the Schedule. Total public sales run-of-mine 26,622 tons, slack 21,535 tons, and splint 3386 tons.

Q. I will accept on those figures certainly that my 60% figure which I had noted here, was too large, but I still say my 10% figure is right.

A. Yes.

Q. So you still have?

A. Sixty-forty.

Q. I said one was 60% slack and the other 10% slack. 28,000 is 60% of 48,000?

A. But in so far as Trenton Steel Works, it is 20 to 28. We are using a combined figure here at the moment.

Q. But if you take 60% of 40,000 you have 28,000, so that on your combined figure you have 60% slack?

A. That is right.

Q. In the sales to Trenton Steel Works?

A. Yes.

Q. And you have 10% slack in the sales to the public?

A. Yes.

Q. And I say on that basis you are not comparing the same thing?

A. Not comparing the same over-all picture.

Q. Did you make any calculation as to what would have happened with respect to those sales if they had been made to the general

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public on the basis of price paid for the same quality of coal by the general public?

A. No.

Q. I have one here, and I will file it and let you have a look at it, and the Commission will be able to check the figures against the schedules prepared here. That figure shows that if the Acadia Coal Company had sold it to the public the loss would have been \$788,000 instead of \$650,000.

BY MR. FRAWLEY - If they sold to the public what they sold to Trenton Steel?

A. Yes, at the prices then prevailing for comparable quality of coal.

BY MR. MORRISON - In other words the slack coal that was sold to the public would have to be sold on the basis it was sold to the Steel Company?

EXM. BY MR. FORSYTHE (continued)

Q. No. Take the same quality and quantity of coal and sell it to the public at the price the public were then paying, and that will show that by selling that coal to the Steel units at the price we got for it, we saved the company \$138,000. And if that statement is correct, that proves it.

A. That is, assuming that you could sell it to the public?

Q. And of course assuming that you could not sell it to the public, and could not sell it to anybody, then by getting \$675,000 for it the Company was saved considerably more?

A. Perhaps you would not have produced it.

Q. In order to produce a certain amount of run-of-mine you have to produce a certain amount of slack.

A. I understand.

BY COMMISSIONER MORRISON - What kind of run-of-mine can you produce that does not have slack in it?

MR. FORSYTHE - I don't know. You can get a higher price for that.

BY COMMISSIONER MORRISON TO MR. FORSYTHE

Q. You are not suggesting that you sell the public a screened run-of-mine?

A. I have made suggestions about what we sell the public.

Q. You suggested to Mr. Morrison that in order to produce a certain amount of run-of-mine you have to produce a certain amount of slack?

A. Is that not true.

Q. The slack is in the run-of-mine?

A. Certainly it is. I always thought you had to produce slack when you mined coal.

Q. That is right.

A. And that is what I meant. And if you have to screen it out for any purpose, then you have a lot of slack that has to be used or thrown away, or your cost goes up.

EXM. OF MR. MORRISON BY MR. FORSYTHE (continued)

Q. Now from this record of the company, and I am referring to sales of the Eastern Car Company, in 1942 it appears that of the 32,440 tons that were sold to Eastern Car Company, 12,784 tons were splint.

A. Yes. You are reading from the record.

Q. And that is a percent of slightly less than forty in the quantity, is it not?

A. That is right.

Q. Bathurst Pulp & Paper Company bought some?

A. 3,364 odd tons.

Q. And we got for that?

A. \$3.30.

Q. And from Eastern Car Company for splint coal we got \$3.67?

A. You have the figures there.

Q. So it would appear that the dealings with Acadia and its Steel unit customers, and the Scotia group, there was no suffering on price at what the public paid and what those units paid?

A. No.

Q. Now it comes down as to whether in dealing with the Trenton Steel Works Ltd. and the Eastern Car Company, those units should pay, in the case of Trenton Steel Works \$1.07 more in 1942, \$2.31 more in 1943 and \$4.01 more in 1944, than other people pay?

A. Yes, I follow you.

Q. That is the question you have to consider?

A. It is the general principle.

Q. And I think you will concede with me that if Trenton Steel has to pay \$4.00 a ton more than the ruling competitive price for coal, if coal plays an important part in its work, it will be handicapped?

A. Yes, it will probably go somewhere else.

Q. And what is the relative part that plays in keeping down the price of the producer?

A. That is right.

Q. While we are on the price of coal for other units, I want to ask you to look at a document I have here. I think I may assure you that the figures are correct. This relates to the price of coal to the Steel Plant from Dominion Coal.

A. Yes.

Q. I think Mr. Frawley read into the record yesterday a statement to the effect that in 1940 or 1941 the Committee had recommended that the price of coal to the Steel Plant be fixed on a comparative basis with prices of coal of the same grade to the Montreal market.

A. I think that is the gist of it.

Q. I want to put before you a document which is shown to me as being a copy of the working sheet of August 19th, 1941, when the price of coal to large consumers in the Montreal market, or any comparable locations like the Mersey Paper Company, when that was established, and I would like you to look at that and see whether those consumers do represent substantial contracts, whether they are substantial consumers in Montreal or any other market?

A. These figures are the average of all of them, and this particular document referred to reads:-

"On July 1st, 1926, the affairs of the Dominion Iron & Steel Company were taken over by the National Trust Company as Receivers and Managers, and a revision of the price was requested by both parties. Representatives for each company were appointed as a Committee to make a recommendation as to a fair price chargeable at that time. The Committee reported that as the only market available for the coal used by the Steel Company, if that company was not operating, was the Montreal market, and the price to the Steel Company should be based on the amount realized

"at the mines for coal of a similar quality supplied to large contracts in the Montreal market. This recommendation was accepted by both parties, and on that basis the price was fixed at \$4.28 per gross ton for run-of-mine and \$3.63 per gross ton for slack."

Q. Now we will take some of these. Here is Montreal Coke & Manufacturing 27,182 tons; Canadian National 20,451 tons, and Canadian National by water 39,233 tons. Those are the figures that were used at any rate, and they established a price of \$4.39 for run-of-mine coal?

A. That is right according to this statement.

Q. And the slack \$3.85?

A. That is right. (Exhibit No. 211) I guess that would apply to all coal produced in the Nova Scotia market that was not sold ~~here~~. The only place to sell it would be up the St. Lawrence or in the Quebec market.

(Page 4198 follows)

BY MR. FORSYTH: Now then, we remember that by the working sheet we had the figures of \$4.39 and \$3.85?

A Yes, I recall the figures..

Q And those figures were for the six months to the 30th day of June, 1941?

A That's right.

Q Now I am showing you a statement dated 19th August, 1941, in which a similar calculation had apparently been made with reference to price to the steel plant, and it was found to be 15 cents below for round and 11 cents below for the slack?

A That is what the statement suggests.

Q And I am instructed that retroactive to February 1941 the price on coal to the Steel Plant was increased 15 cents to \$4.39 for round coal and to \$3.85 for slack. Now does that check with the figures of your. . . you will have to look at 1941, I think, first.

A Yes. I just want to be quite clear, Mr. Forsyth. The analyzed statement of the company in respect to the Steel Division for 1941 shows a net price of \$4.381.

Q That is as against \$4.39?

A The price here at that time was apparently \$4.224 on this statement.

Q We made it retroactive to February.

A Well, it is not exactly the same. It is \$4.381 as against \$4.394.

Q And I think, Mr. Morrison, that you have made a sufficient check to have established that the increases in price since that date to the Steel Company have been the increases authorized by the Wartime Prices and Trade Board?

A The Wartime Prices and Trade Board.

Q Now had you any occasion to consider yourself, in dealing with this question of the price of coal as between the Steel Plant and the coal company, the quality of the coal for the purpose for which it is intended to be used?

A No.

Q Now if we take that figure you have got on a statement here, the price of coal to the Lasalle Coke Company, and the figure which shows the cost of washing--you see the realized price, if you look at Exhibit 211, the realized price to Montreal Coke and Manufacturing for round coal was \$4.33, and our realized price for round coal is \$4.38.

A Montreal, 1941, \$4.246 is the figure that is shown in Schedule 3. I don't know that that would be quite comparable, because of these being the figures for the year as against a six months period there.

Q That is unfortunate, but at any rate I suppose it costs as much to wash it in June as it does at some other time? Well, Mr. Morrison, the exactness of the thing is not nearly so important, because we can deal with that later, but it just means this, that if the Steel Company pays for washing its coal the same price that is charged against the washing of Montreal Coke and Manufacturing Company you would have to increase its price, I mean to put it on a similar basis?

A You would have to increase its price by the cost of washing.

BY MR. FRAWLEY: What is that price?

A \$1.18 a ton.

BY COMMISSIONER MORRISON: To wash coal?

A Yes.

Q Where?

BY MR. FORSYTH: Right here in Sydney. You understand the actual operation is not the only cost of it. You lose - I think Mr. Anson gave me some figures - 8 or 9 per cent. You lose 9 per cent of the coal, so that must be added into the cost of washing.

BY MR. FRAWLEY: What about Island Creek?

BY THE CHAIRMAN: That would be something interesting. I suppose we couldn't get a very accurate statement on what would be the cost of buying American coal and bringing it down here, which I understand would be better coal for steel making?

BY MR. FORSYTH: Mr. Anson is in course of preparation now of an analysis which will be sent to the Commission, in which he is going to analyze all the elements, including the element of price on the American coal delivered, so that the Commission will be able to see just what difference there is to the Steel Company in buying Dominion Coal at the price they pay and what would be the cost if they bought American coal of the quality they want at the price they would have to pay. Of course the whole history is that the Steel Company was put here to consume this coal, or at least it was put here because it could get this coal at a price, and you can't talk about a loss on that coal except in the years when you could sell it somewhere else at a profit.

BY THE CHAIRMAN: Well, suppose that the Steel Company does get coal at below cost of mining, do you think that is a serious matter so far as the coal company is concerned, and by the coal company I mean everybody interested in the welfare of the coal company? Are you conceding that that is a bad thing for the coal industry?

BY MR. FORSYTH: No, I am not conceding it at all. I think myself that the existence of the Steel Company here, and the fact that it can take this tonnage of coal at times when it couldn't be sold anywhere else, is a very manifest advantage to the coal company, because otherwise their costs would be tremendous.

BY THE CHAIRMAN: And to the general economy of this part of the country?

BY MR. FORSYTH: Just so, and I only developed the matter with Mr. Morrison for the purpose of showing that there was some debate about it, and I must say in that connection, although I think the press reports have stated the facts of Mr. Morrison's report very accurately, that is they have just said that a loss was shown when you compare the price received with the mining costs, I don't think myself that it is a very

good thing for either the coal industry or the steel industry for either one of them to suggest that they are being helped out this way--we are talking about coal at the present time; I will get myself in wrong with only one of my masters at a time--I don't think it is a good thing for the coal industry of this province for anybody to suggest that the industry is being operated at a disadvantage so that the steel company may have an advantage.

BY COMMISSIONER McLAURIN: I don't know what there is on the record on this question of washing costs. What did you say it was?

BY MR. FORSYTH: It is established in Exhibit 211 at \$1.18 $\frac{1}{2}$, and I am very grateful to Mr. Morrison for having made the comment he did about the cost of washing, because I wanted to point out that the Steel Company's experience is that they lose 8.92 per cent of the coal.

BY COMMISSIONER McLAURIN: Of course I am a complete amateur but I would think that in some fields with modern washing plants 50 cents a ton, including your loss of coal, is high.

BY MR. FORSYTH: Of course you are talking about modern washing plants, and you are also talking about washing a different kind of coal, aren't you? I think perhaps it might be a little better in some instances if you would lose a little more coal. Mr. MacLanders has just given me a very interesting and easy question of arithmetic. He says, what is the cost of the loss of 9 per cent on \$2 coal, 18 cents; and on \$7 coal of course it is 63 cents.

BY COMMISSIONER McLAURIN: That's right, but you still have to make up \$1.18.

BY MR. FRAWLEY: I think that this question of the importation of coal to replace Dominion coal at the Sydney Steel Plant, I think it would be a good time to put on the record correspondence that passed between myself and Mr. MacLanders on this very question.

BY COMMISSIONER McLAURIN: When you speak of records you are going to put something on for the whole public to read. Is it fair or is it not fair?

BY MR. FRAWLEY: Oh, I see.

BY COMMISSIONER McLAURIN: Supply copies to us. I mean, I am not trying to keep anything off the record.

BY MR. FRAWLEY: I see what you mean, and the correspondence certainly lost its significance when Mr. MacLanders later called my attention to this point. He stated, of course the coal would have to be washed, and how he tells me it costs \$1.18 $\frac{1}{2}$. That certainly throws the comparisons right out. I think it is something we have got to go into for the Commission's information, find out what it costs to wash coal in different parts of the world.

MR. FORSYTH resumes Examination of MR. MORRISON.

Q Now just for the purpose of recording the fact, Mr. Morrison, I want to refer now to the item to which you call attention in your report, No. 205. That is the Dominion, isn't it?

A Yes sir.

Q That reference to the additional man shifts worked comparing 1944 with 1936, and I call to your attention the fact that during the year 1944 the mines were operating 269.2 days and that in 1936 they were operating 205 days?

A Yes.

Q And given a total working force other than mining labor, that is taking the surface and underground datal labor, you had an average working force in 1944 of 4,784, and multiplying that by the 64.2 additional days worked you would have 307,132.8 additional shifts?

A Right.

Q Now Mr. Cohen yesterday devoted some time to a discussion of the financial affairs of the Dominion Coal Company, and with particular reference to that portion of your report in which you give the historical background of the issues of capital

stock and of bonds?

A Yes, I recall it.

Q Now on this question of bond discount first, Mr. Morrison, in the first place I suppose it has been your experience in accounting that you usually find that a person who wants to raise money by the sale of bonds has to pay somebody to sell them for him?

A That is the usual method that is adopted, yes.

Q And depending upon the credit of the company which is issuing the bonds, and upon conditions in the money market, there will be fluctuations in prices that he can obtain?

A That's right.

Q And it is usually, I say, the approach of the accounting or financial man to the fact that you have to pay to sell the bonds and that you have to take the prevailing market rate, you say, "Well now, I am projecting this matter over the 10 years or 20 years that my bond issue will be outstanding. What is the effective rate of interest I am going to pay?"

A Well, it is largely on the rate on the face of the bond by the amount of the discount amortized over the period of the bond.

Q Now I don't suppose you have gone to the trouble of working out the effective interest rates that this company has paid on its bonds over a period of years?

A No, I have not.

Q It could be done?

A Yes, it is capable of being done.

Q And doing that would show you what the money has cost, what the capital has cost the company over the period?

A That's right.

Q Whereas adding together the bond discounts and saying they amount to one and a half million dollars tells you nothing?

A Well, it tell syou the total figure that has to be spread spread over the lifetime of the bonds.

Q But it tells you nothing about the cost of money?

A Well, you would come to the same figure in total for a period of years.

Q But I say the cost of the money to you expressed in terms of actual payments you must find out by calculating the effective interest rate?

A That's right, by amortizing it over a period of time.

Q And that is the way it is generally done? I mean, that is the approach? A man borrowing money says, "What am I going to pay for it?"

A That's right, and the effective rate is only arrived at by spreading it out over the period of time involved.

Q Now the preferred stock transaction. You recall that we had outstanding in 1934 an issue of 7% cumulative preferred stock totalling \$3,000,000.00?

A That's right. I recall it.

Q And no dividends had been paid on that stock for 11 years?

A That's right, from 1923 to 1934.

Q And that gave a total accumulated dividend of \$2,310,000.00?

A That is correct.

Q In 1934 the preferred shareholders were asked to do two things: to accept a lower interest rate on their money?

A Yes.

Q From 7 to 6 per cent, and to capitalize the arrears on dividend on their shares?

A That's right.

Q And they accepted that proposition and received a capital amount totalling some \$690,000.00 spread over the \$5,310,000 they were capitalizing?

A They received the amount of \$690,000.00 in addition to the amount of \$2,310,000.00.

Q They received a capitalized amount expressed in preferred shares of Dominion Coal Company?

A That's right.

Q Now did you ever make any calculation as to what amount of interest the \$2,310,000.00 would have earned them at say

3 per cent over the 11 years that they didn't get it?

A Well, Mr. Simpson yesterday afternoon made a calculation at 5 per cent, and it has not been checked over, but it would appear as \$577,500, simple interest.

Q Of course I suppose when a man hasn't got it it is fairer to compound it?

A Well, just whichever way you are making the calculation.

Q Well, at any rate they didn't get it, but the amount of \$690,000.00 in preferred shares would not represent very much advantage over what the amount would have got in compound interest at 3 per cent or 2 per cent?

A Well, I wouldn't think so.

Q And these people were after all relinquishing on the original \$3,000,000.00 1 per cent dividend rate?

A That's right.

BY COMMISSIONER MORRISON: Which they didn't get for 11 years.

A Which they didn't get for 11 years.

BY MR. FORSYTH: Now yesterday we were going to get some--oh yes, Mr. Cohen also discussed with you the reserve for bad debts. Can you tell me just in a moment where that figure is?

A Yes, it is in Schedule No. 3.

Q Just let's look at that. On trade accounts the Dominion Coal Company had a reserve of \$217,168 against \$3,195,056.59?

A That's right.

Q Do you consider that an undue reserve?

A No, I don't. I think it is quite proper. It is less than 10 per cent, in fact less than 8 per cent of the total.

Q And you think that is a reasonable reserve? Now as against \$6,563,015.33 they have got a reserve of \$123,783.98?

A That's right.

Q Now my friend suggested that the Province of Nova Scotia, \$76,612.84, was a good credit risk and I agree with that, but when I tell you that that amount has been disputed now

for some eight years of my knowledge, if not more, wouldn't you think it was a prudent thing to have some reserve against its collection?

A Oh yes, when we found it was a refund of lease rentals, we have had some similar experience. I would say you would need a reserve.

Q Now when I tell you that C.N.R., \$33,347.19, is a disputed claim for damages against the railway, do you think that that was a proper account to reserve against?

A I would think so.

Q And that the amount of \$31,696.42 due from the National Harbours Board is also a disputed account, do you think it is prudent to have some reserve against that?

A Yes. If you got any more disputed accounts you won't have a sufficient reserve.

Q Then there is one there, \$5,813,817.40, what do you think about that one?

A I think the auditors thought of scrapping the whole balance sheet because of that one.

Q And if any minor catastrophe should happen to that one the reserve for bad debts of \$123,000 would not last very long?

A Not very long.

BY COMMISSIONER MORRISON: I would think you would be in bankruptcy court instead of before this Commission.

BY MR. FORSYTH: Well, there is something in that thought and I guess that is one of the reasons we are here. Now, Mr. Morrison, viewing the thing from a broad point of view, would you think that that \$123,000 was any more than adequate to take care of the hazards of those accounts?

A No. As an auditor, now having received an explanation from, I would say an official of the company, I would say it is inadequate.

Q Now the investment account of the Dominion Coal Company was the subject of a question or two by my friend.

A That is Schedule No. 4, Mr. Forsyth?

Q Now I wouldn't ask you to express an opinion on the value of the Glace Bay Hotel stock, Mr. Morrison, nor on the Glace Bay Forum stock, or the Empire Housing Company stock, but I would like to ask you with reference to--I suppose you would be willing to say that the four items listed above them appear to be better than those are?

A Well, the Dominion of Canada bonds, I know something about those.

Q And what are those $4\frac{1}{2}$ Dominion selling at today?

A Well, I don't keep up with the market prices at all, but they are over par.

Q And the 3 per cent Second Victory Loan?

BY COMMISSIONER McLAURIN: 103.

BY MR. FORSYTH:

Q Now I am not going to ask you anything about Glace Bay General Hospital, but do you know what Dominion Steel and Coal cumulative registered income bonds are selling at today?

A No, I have no knowledge.

Q 108 to 109, so on market prices at any rate the first listed item appears to be, I won't say the soundest, but at least the most valuable relative investment for them?

A Well, out of the total involved. I don't know at the moment whether those are carried at their par value or at cost.

Q They are carried at par value. There was another thing, Mr. Morrison, that I wanted to speak to you about in 205 while I think of it. Let's think about American coal for a moment. You referred to the fact that we have an inventory reserve of \$600,000.00?

A That's right.

Q And you show of course that we haven't got a very large inventory?

A With the exception of the purchased coal.

Q Well now, I am not going to go into any technical discussion about the banking of coal with you, although that might easily arise there, but I will just ask you, having in view the magnitude of this company's transaction in American coal

and the fact that they have to make forward commitments at firm prices for large amounts of coal involving large amounts of money, would you say that \$600,000.00 reserve is excessive to meet the hazards of this possible price?

A I would need to know much more about those hazards before I would express an opinion.

Q Well, you know there are hazards in prices of any commodity?

A That is true in quite a number of lines; not all lines.

Q And where you are bound to speculate, because that is what you are bound to do when you make forward commitments at firm prices, then it is always prudent to have reserves that bear some relative proportion to the amount of money that you have at risk?

A Well, if that were the situation here, but you see this particular reserve has been built up over a period of years when American coal was not a factor.

Q I am just saying that the reserve exists?

A That is true.

Q And it may, in view of the fact that we have got into these very large transactions affecting American coal, it may be not an imprudent thing to leave a reserve there for that purpose? A That may be possible, but before expressing an opinion I would want to know something more about its risk.

Q Well, you would say at any rate that any concern operating on a forward firm basis in a commodity the price of which is liable to fluctuate, ought to have some reserve, and the question is?

A How much? That's right.

Q And if, of course ---

A Have you left that question?

Q I haven't left it if you want to stay with it.

A I just wanted to make this one observation. The inventory on hand appears to represent about two months' supply, two months' sale. I just wanted to be sure that we were talking about the adequacy or otherwise, and the forward com-

mitments that were involved.

Q Well, the forward commitments are more important than the inventory on hand, I would think?

A That is true, but I would presume those are duly taken into consideration when the contracts are made, all of the risks that are involved.

Q Well, I don't know what your experience has been in doing business in the last six years, but during the last six years you know a person who had to have something, or thought he had to have something, couldn't give much attention to what risks were involved in contracting to pay for it?

A Then that would be a reserve for bad debts, not for inventory. I mean if you are going to sell your commodity and not get paid for it.

Q Oh no, I am talking about buying it before you get it and committing yourself to pay a certain price for it. If I have committed to buy coal nine or ten months ahead and the price drops in the meantime and I am still tied to my nine months price I have a hazard in that?

A Of course this was not designated as that kind of a reserve.

Q I quite agree. I don't want to get into a position where I am telling you I am not quarrelling with you, because I don't have to tell you; you know better than that. All I am saying is this: If you have this \$100,000 set up in an inventory reserve, and you find yourself in a business involving very large sums of money pledged forward to buy a product, you can't be accused of being imprudent if you maintain all or some part of that reserve, having regard to the risks involved, to meet the contingencies of a falling market?

A You certainly would not be called imprudent.

Q It may be well to call the reserve by another name?

A That's better.

Q And it probably would not smell a bit sweeter, or a bit worse?

A It wouldn't smell at all.

Q I don't know that it smells at all as it is, but I would certainly agree with you seriously that it would be well to designate it by another name. But there are a lot of things in here it is pretty hard to call by any name until you find out what they are?

A I will agree with you 100 per cent on that.

Q Now if you don't mind, Mr. Morrison, we will come to that question of the profit and loss.

A On page 12, is it, Mr. Forsyth? Is that what you have in mind, Exhibit 205?

Q That's right. Now basing this question, Mr. Morrison, on the assumption that you got this profit and loss statement, or these figures from some statement supplied to you by the company, so that we don't need to have any argument about that at all, in order to have the true theoretical position, if you can call it that, you would have to deduct the Sydney & Louisburg losses from the figures shown in that table, wouldn't you?

A That is correct, and I put that on the record yesterday.

Q I take it, Mr. Morrison, that you would agree with me that the task of yourself or anybody else, and engineering assistance, in rewriting the accounts of the company to change from its accounting system to the one that you propose will involve a great deal of detailed inquiry into the relative life of some of these installations?

A That's right.

Q And you couldn't, of course, without having made those calculations, you couldn't establish a 20 year basis or a 10 year basis or anything else to go on?

A Well, that is the work we hope to do with the engineer, to go into these items and endeavor to get from him his estimate of the lifetime of the various items in question.

- Q One of the things that I may say rather surprised me was the suggestion that those pit tubs were, shall I say, capable of being translated into a standard life.
- A Well, isn't that done on your first operation? When you open a colliery first doesn't the company take the same view, that your pit tubs on your first operation are capitalized?
- Q It takes the view that its capital expenditure is there spread over some years, but it also takes the view that when it needs new pit tubs that they are not necessarily--well, you have got a basic difference in accounting. It is pretty hard to work out an average on pit tubs. Did you think of that?
- A Oh, yes sir, because it was quite a common practice in the West--we call them mine cars out there--are spread over a period of years, all of them.
- Q I suppose you have a different situation out there due to much shorter haulages?
- A There may be, and that is why we always defer to engineering opinion on a matter of that type.
- Q And different climatic conditions?
- A It is quite possible.
- Q At any rate you and I won't enter into any argument about it until you have decided something about it, but getting right down to brass tacks on the question of the accounting system, I suppose you would concede, or perhaps you can tell me as to whether more or less of the mines in the United States follow the practice that this company has followed, or the one that you suggest?
- A Well now, I have no personal experience. I understand that the majority of the large companies follow very much the system of accounting that your companies follow. That is my understanding. It doesn't conform, however, with what their

National Coal Association would suggest to them, but no doubt they have very good and sufficient reasons.

Q It just amounts to this, that there is a large body of opinion that supports any one of the three practices you suggest?

A Of course I think the main thing to be considered is the reason for the accounting procedure. As you know, the Income Tax Department will disagree with many companies. They do not suggest there is anything improper in their accounts, but for the purpose of income tax they don't agree with them. The Emergency Coal Production Board does the same thing, which is different from the companies and from the Income Tax Department. For the same reason we are suggesting that this will reflect a fairly accurate picture of the costs.

Q It will reflect a fairly accurate picture of the costs in the two years of 1943 and 1944?

A That's right.

Q But if you go back over the years, and I should think this Commission would have to do that, won't you find that your average costs will back up all those figures and work out just about the same in the end?

A Now as to what the final result would be I do not know, but I would not be at all surprised to find that result.

Q And so far as the amount of money in the company is concerned, I mean the financial integrity of the company is concerned, it doesn't make a great deal of difference, leaving aside the question of taxation for the moment, it doesn't make any difference which system you follow?

A From whose point of view?

Q Well, from the company's point of view?

A The company would be very much concerned with having all those charges regarded as operating costs, because under present conditions they are going to get reimbursed by the Emergency Fuel Production Board.

Q This Commission is not here considering this matter solely from the point of view of the Emergency Fuel Production Board?

BY COMMISSIONER McLAURIN: You used the word taxation. Don't you think it fair to have the words subvention and subsidy?

BY MR. FORSYTH: I was actually putting the matter on the basis of an industry that had no subventions and no subsidies.

BY COMMISSIONER MORRISON: You were thinking of the days 'way back when?

BY MR. FORSYTH: When you could buy one for 85 cents.

BY COMMISSIONER McLAURIN: We want to be straight about it, the interests of the company, the mine workers and the industry.

BY MR. FORSYTH: You see, the great difficulty I see about this thing is, I think that when you have a company that has been operating under this system of accounting for 50 years--and I am not suggesting that there is anything wrong in Mr. Morrison's attitude about it--I don't think that it is quite possible to rewrite that company's accounts; I mean having regard to the span of human life and the amount of time people are willing to devote to these things, so as to present a really accurate picture of the situation. Now might I say this, Mr. Chairman: It has been my view from the time that I first saw Mr. Morrison's reports, and I think that he would agree with me on this, that beyond reflecting a very indefinite state of affairs in this company's finances because of the failure to reach some conclusion on the subsidy arrangements for 1943 and 1944, and apart from the very useful and very intelligent way in which Mr. Morrison has collated the information and called matters of importance to the Commission's attention, I don't believe that this report, just in the state it is in, should have been put to the Commission at this time. That is the feeling I have about it, and if I had known more about it I probably would have said something about that a few days ago.

Now I am going to suggest that there is not very much ob-

ject in my cross-examining Mr. Morrison upon factual matters that I would have to put in his mouth as being statements from the company, and which he could neither affirm or deny, and I thought I might suggest that I might take these reports and ask the officials of the companies to prepare in written form their comments from their point of view upon such points as Mr. Morrison has raised in the reports as requiring explanation, and if I have your permission, Mr. Chairman?

BY THE CHAIRMAN: Nothing to interfere with the facts?

BY MR. FORSYTH: Every fact presented by Mr. Morrison as I understand it is taken from the company's records or from information which they supplied to Mr. Morrison. Now we are not going to contradict those facts; that is not the purpose. Mr. Morrison does raise some questions. He raised the question, for instance, of the price of coal to the Steel Plant, to Seaboard Power. Now I just take that as an instance. If I put it to Mr. Morrison that Seaboard Power Corporation burns splint coal which if they didn't take it would virtually have to be thrown away, Mr. Morrison would say to me, "I don't know anything about that. If you tell me that is so, all right." If I say to Mr. Morrison, the Seaboard Power plant was constructed in an effort to use that coal rather than have it thrown away, but always considered upon the basis that would involve getting coal at a price certainly less than the cost of mining first class line coal, that would not advance us any further, but if somebody makes a statement and demonstrates what happened to the splint coal before that plant was built, that might be of some use to the Commission. That is the sort of statement I am suggesting.

BY MR. FRAWLEY: I would like to have a statement like that, maybe examine them, show them to our engineer. That seems to be a satisfactory way of disposing of it, because when

those statements come in we may want to do a lot of examining before we put them into the record.

BY COMMISSIONER McLAURIN: We are not going to put them into the record at all. They will be submitted to us to be sure we have it straight.

BY THE CHAIRMAN: If it is a reply in contradiction to any opinions expressed by Mr. Morrison it should go on the record, and be subject to scrutiny by Mr. Morrison too.

BY MR. FORSYTH: I must say I have perhaps not a very clear idea of what the record is. I don't visualize this Commission making a record that would go to a Court of Appeal. I visualize the Commission as having before it information in the form of sworn testimony or matters read before it; information in the nature of memoranda, reports; information that it has perhaps acquired by reason of the visits to the coal mines, not in writing at all; and when they come to prepare their report this is the record they will have, all the information they got; but if it is necessary at any time to ascertain who took this position or that position upon a disputed question of fact, then it seems to me that you would go to what I would call the transcript evidence.

BY THE CHAIRMAN: Of course everything we are getting here is part of the record, whether it is put in here or not, but what I say in regard to your proposition is, every word Mr. Morrison has said, every opinion he expressed, is in what we call the evidence record, if you want to put it that way.

BY MR. FORSYTH: All right. If I come to you with a statement and say, "I don't agree with Mr. Morrison's opinion about this," I think from the point of view of my interests that I should do the thing this way or that. Now if anybody wants to read that into that record so that they can compare my opinion with Mr. Morrison's, I don't care.

BY MR. FRAWLEY: That's all I was thinking of, to put it some place on a comparable level.

BY MR. FORSYTH: If I were doing it, when that submission comes in I would say to Mr. Morrison, "Have a look at it. Does it change your mind about anything?" He would say no. Probably he would say yes. If it does, add to your report, "Since writing that report I have read so and so and it changed my mind, or it didn't."

And I wanted also to submit for the Commission's information an analysis of this situation with regard to the coal supplied to the Steel Plant, from the point of view of the Steel Plant, so that if there is anything in that thing and it has to be discussed and it has to be made the subject of press reports and other propaganda, then let us have the facts so that they will be known by everybody concerned. Now that is another statement that I wanted to make.

BY THE CHAIRMAN: That is the suggestion I made a little while ago.

BY MR. FORSYTH: Yes. I don't know that there is anything else I can do at this time. I want to say on behalf of my clients before I close that the Commission itself needs no compliments from me, but I do want to say, some of these men we may not see. Dr. Young has been here, Mr. Morrison has been here. I want to say that so far as the staff of this Commission is concerned, and that includes the secretary and his assistants, I found them to be extremely co-operative. Mr. Frawley, known to everybody to be the king co-operator in the Commission field, but everybody connected with this Commission has been most co-operative and have given me personally great assistance, and I speak for my clients when I say that they appreciate that co-operation too.

BY MR. FRAWLEY: I have been asked to substitute a new Exhibit 72, which is a summary of labor classifications shown in age groups for Dominion Coal Company Cape Breton operations. It has been revised. It means that 72 has simply been withdrawn and this document substituted in its place. I may say a copy was given in advance to Mr. Cohen.

Then I was asked by the Province of Nova Scotia to substitute a new Table No. II, page 23, of Exhibit 46, and similarly to substitute a more complete and detailed statement for the table which appears on page 7, being the average figures for Nova Scotia coal markets for the four years immediately preceding the war. That's all.

BY MR. COHEN: I didn't join in my friend's remarks because - this is a promise, not a threat - I expect to be with the Commission in Ottawa and thought that I would then make the remarks that would be fitting to the occasion. I take it that any statement that my friend will file - and I am suggesting that my friend has pretty well followed the same line as that suggested by me early in the afternoon in respect to questions I would address through Commission counsel - I take it that copies of such statements would be made available to us, because we have at the present time Mr. Morrison's financial statements and his report and his testimony both in chief and on cross-examination and on examination by my learned friend Mr. Forsyth, and certainly if anything is coming in, either from a factual standpoint or a standpoint of deduction or anything else that bears upon that material, I should think that we would have it made available to us.

BY THE CHAIRMAN: Oh yes. Well, that finishes our term here. You will hear from us perhaps in a few years' time.

4.15 P.M. - COMMISSION ADJOURNED

THE ROYAL COMMISSION ON COAL

Ottawa, Ont., October 3rd, 1945.

VOLUME XLVI

WITNESSES:

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Ottawa, Ont., Wednesday, October 3rd, 1945.

LIST OF EXHIBITS

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THE ROYAL COMMISSION ON COAL

Ottawa, Ont.
Wednesday, Oct. 3rd, 1945.

The Commission met in the Court Room of the Board of Transport Commission, at Ottawa, Ont., on Wednesday, the 3rd day of October, 1945, at 10:00 o'clock A.M.

PRESENT:

His Lordship the Honorable Mr. Justice W. F. Carroll, Chairman.

" " " Hon. Mr. Justice C. C. McLaren, Commissioner.

Angus J. Morrison, Esquire, Commissioner.

J. J. Frawley, K. C., Commission Counsel.

Robert D. Howland, Secretary.

BY MR. FRAWLEY - The first submission will be by The Canadian Institute of Mining and Metallurgy, and Dr. A. E. Cameron will present the brief, which is marked EXHIBIT 212.

DR. A. E. CAMERON then reads Exhibit 212, as follows:-

The Council of this Institute has approved the appended Brief and directed that it be submitted for your consideration.

The Council wishes the Commission distinguished success in the performance of its vitally important task, and will gladly accord any assistance in its power.

SUMMARY

The Institute earnestly endorses all representations that have been made to the Commission insisting that the problem of the Canadian coal industry is a National problem, and submits:

- (1) That the condition of the industry has, in recent years seriously deteriorated.
- (2) That either it must be strengthened as an important national industry or it must further deteriorate.
- (3) That, for the industry to be stabilized on a basis commensurate with its social and economic importance to the nation, immediate plans must be formulated and implemented to achieve substantial betterments alike in production, consumption and demand

- (4) That the Industry should be enabled to supply as much as economically practicable of Canada's normal coal needs.

Introduction

The Canadian Institute of Mining and Metallurgy is an association of engineers, scientists, operators and others whose primary interests lie in the mining, metallurgical and associated interests of Canada. Its membership includes executives, officials and workers in all the large industrial organizations using and working products of the mineral industries of Canada.

The Institute is national in character, with branches in all sections of the Dominion where mining and metallurgy are practised. In certain places, as in Alberta and Nova Scotia, large numbers of its members are interested in and dependent upon coal mining and the producing of coal and products from coal. In other places, as in Trail, British Columbia; Flin Flon, Manitoba; Sudbury, Ontario; and Noranda, Quebec; to name only a few, its members represent and work for industries that are large consumers of coal or its products, and must consider the costs of these materials in the operation of the plants and industries in which they earn their livelihood.

The railways of Canada require large quantities of coal for freight and passenger movements. The mining and metallurgical industries are responsible for no small part of the total car loadings and rail freight movements throughout Canada. The Institute realizes full well the important part that fuel costs play in the cost of rail transportation. It knows the effects that high cost of fuel can have in increasing the costs of these movements and thus, perhaps indirectly, but nevertheless substantially, increasing the costs of mining and metallurgical treatment.

Because it represents both producers and consumers of coal, because it represents all sections of Canada - east, west and centre - and because its membership represents all phases of the mining and metallurgical industries in Canada, the Institute desires to make its contribution to the great assemblage of data

and argument that has been placed before the Royal Commission on the Coal Industry of Canada.

The Canadian Coal Problem

Your Commission has received many briefs concerning the coal problem of Canada. It is not the intention of this Institute to repeat the many arguments that have been put forward therein, but it does desire to support all representations relative to the national character of this problem that have been made, and to re-emphasize a few of them, as follows:

1. General

The outstanding contributions to Canadian requirements made during two great wars have left the industry in a seriously weakened position. This is especially the case with many of the older operations.

Many important markets developed over long periods of years were lost, and recovery of lost markets is a slow and expensive process.

In some instances, expenditures necessary for physical re-establishment of mines to a standard essential to future operations are substantially in excess of the financial resources of the mining companies. In others, consideration must be given to the opening of new mines and possible abandonment of certain existing mines.

In the circumstances, it is obvious that the industry cannot continue as presently constituted. It must be expanded to continue as an important national development, or it must revert to a lower category, supplying only sectional requirements and functioning on a gradually reducing scale.

Stabilization of the industry to a condition in keeping with its importance will require adjustments throughout the entire Canadian field of production and consumption. The following are submitted as prominent among the primary considerations for review.

- (1) The nature and effect of foreign competing fuels, solid and liquid.
- (2) The great distances separating the Canadian coal fields from industrial and more thickly populated centres.
- (3) The great variety of coals available in the coal-bearing areas of the country.
- (4) The widespread differences in structural conditions and the varying depths of the coal deposits below the surface.
- (5) Insurance that future developments will be in keeping with proper conservation of the country's coal resources.
- (6) Employment of the best methods of extraction in the various producing fields so as to assure efficiency and economy in operation.
- (7) Consistent with fairness to employees in the industry and to the mining companies involved, definite assurance that the benefits of improvements in operations will be passed on to the consuming public -- especially where financial assistance is rendered the industry.

2. Competition of Foreign Coals.

The Institute believes that the national interests of the Dominion demand that the coal industry of Canada should be assisted to supply as much as possible of the normal needs for coal.

The complete dependence of Canadian industry on Canadian coal is probably not economically possible. Laid down costs of foreign coal, particularly American coal, in certain areas of Canada may because of geographical conditions always be less than costs of similar Canadian coals.

On the other hand, unless Canadian products provide more than merely potential competition, it is reasonable to expect that the cost of imported coal and liquid fuels to consumers in Canada will rapidly rise. In the past, Canadian production and the threat of competition have had an important bearing on the cost of fuel to many Canadian consumers.

This regulation of prices and to some extent of the quality of fuels is regarded by the Institute as definite justification for assistance to the Canadian coal industry.

3. Competition between Canadian Coals.

The Institute believes that the Canadian consumer is entitled to the full benefits of honest competition in quality and price. This is the fundamental stimulus of private enterprise. At the same time, the Institute realizes that geographical location of the coal-producing areas and physical conditions in the coal seams are primary considerations in achieving maximum use by Canadians of Canadian coal. Transportation costs are the result of geographical location: production costs depend largely upon the physical conditions of the coal deposits and developments in mining practice. All these factors must be considered very carefully in plans to supply Canadian markets from Canadian sources.

All the briefs submitted to the Commission have emphasized the problem of transportation costs resulting from the geographical location of Canadian coal fields. While there has been some new development to meet sectional wartime requirements, the fact remains that the total productive capacity is, nevertheless, considerably less than the normal needs for coal by the Dominion.

A review of market conditions indicates that there is not sufficient consumption in any one of the important producing provinces to absorb the coal mined within the province. This necessitates movement of surplus coal to other provinces.

Due to the distances separating the mines from important consuming centres, each producing area desires and needs assistance to overcome the transportation costs involved in moving its products to available markets.

Production costs reflect largely the relative accessibility of the coal, and this in turn depends upon the geological structure of the deposit and upon the history of mining operations within it. Near-surface coal is cheap coal; deep-seated subterranean and submarine coal is expensive coal.

The Canadian coal problem is complicated by operations in old producing fields of Nova Scotia and Western British Columbia, where cheap, near-surface coal is exhausted,

and by other operations in intervening fields where large reserves of coal are more readily available. Detailed description of these conditions have been submitted to you in briefs prepared by the various provinces.

The Institute believes that subventions on freight movements of Canadian coals from the East and West to Central Canada, to permit coal from Canadian sources to compete with foreign (largely American) coal, are not by themselves a complete solution of the Canadian coal problem. It considers that regional and even individual adjustments will be necessary to synchronize various units of the industry into a national co-ordination.

4. Effect upon Social Conditions

An important function of the Canadian coal industry is employment. The industry employs more labour per dollar's worth of product than any other industry, and it has been shown in many of the briefs presented to you that the transportation by rail and the distribution of Canadian coals to points beyond the natural markets of a given area gives employment to large numbers of Canadian workers apart from those employed in actual production.

The industry thus supports indirectly many homes where the products of manufacturers are consumed. Greater stability of the Canadian coal industry would make such homes more prosperous and in that way enlarge the markets of Canadian manufacturers in a mutually profitable association.

To achieve these effects, the coal industry must have highly competent management, modern equipment, and developed resources. To obtain these, it must be established upon a sound financial basis. That indispensable essential can be achieved and maintained only if the products of the Canadian coal fields can move to markets beyond present limitations.

5. Financial Needs.

Coal is as much a public necessity as the products of agriculture and/or fisheries. Those industries are aided by financial arrangements expediting the importation of essential

equipment not manufactured in this country. The coal industry should be given similar facilities. To compete on an equal footing with imported fuels, mining equipment used by Canadian coal producers -- and not available from Canadian manufacturers -- should be exempt from import duty and sales taxes. To permit stabilization of markets, adequate financial arrangements should be established and assured for a reasonable period of time.

Steadily increasing charges by certain of the municipalities in which the mines are situated impose heavy and unfair handicaps upon some of the companies. In view of the weak position of the industry and because of its importance to municipal, provincial and federal bodies, there should be a definite limit upon pressure for financial returns from the industry.

6. Standardization of Regulations.

The Institute commends the efforts already made towards co-ordination of provincial regulations and recommends to the Commission that this endeavour be further developed to the national advantage. Lower production costs could be achieved by expanding the use of electrical and other applications of motive power, including low-cost haulage, in the mines.

7. Investigation and Research

The Institute commends investigation and research in combustion and better utilization of Canadian coals and believes that in these lie great possibilities of expanding the markets for industrial and domestic fuels. Continued investigation and research must prepare for the day when cheap liquid fuels will not be as readily available as they are today.

8. Justification for a National Coal Policy

A conference of eight Provincial Ministers of Mines, gathered in Quebec in April last, considered the Canadian coal problem in its broader aspects and after deliberation stated:

"The conference recommends that coal should be recognized and declared a national public necessity and that, arising from this, there should be a national coal policy."

Argument on the national value of the Canadian coal resources is based on the great reserves of coal available, as reported in the briefs submitted to the Commission, and upon the present and potential productive capacity of the industry.

Undoubtedly, the reserves and resources of Canadian coal are ample for all such economic and political developments as may be assured by formulating now a sound national coal policy.

To proclaim and reiterate the value to any nation of a native coal supply is superfluous. That is accepted as a proven premise. It is written into the history of nations. Canada's national coal problem, the many humiliations and embarrassments it now involves and must increasingly involve, arises from our attempt to maintain national status. It arises from the concentrated development of industry and the disproportionate growth in population in Central Canada as compared to the East and West.

This concentration has resulted from two conditions; first, proximity to the coal fields of the United States and enjoyment of a situation nearer to those great coal fields than that of many of the larger cities of the United States itself; secondly, a tariff structure fostering the manufacturing industries of Central Canada. The finished products of these industries are sold throughout Canada and are paid for by citizens who make their livelihood from the production and the sale of raw materials, the products of the earth, the sea, the forests and the mineral deposits.

A discussion of the advantages or disadvantages of this condition forms no part of this brief. The condition is established and is part of the Canadian scheme of things. It is probable that the economic trend responsible for it will continue. It has already created disparity in population density and growth of industries; and as there is every indication that the disparity will persist, it is in the national interest to develop ways and means to compensate or ameliorate the differences.

The principle of reciprocal trading between Canadian provinces has been recognized and practised since Confederation; in fact, that was part of the pact. One province exchanges the raw

materials and goods it possesses in abundance for things it lacks but which another province does possess and wishes to supply. The fact that the provinces to the East and West have coal and the Central provinces have none, certainly comes within this elementary principle of national exchange and of economic oneness and continuity. If this principle be denied, then nationhood as a principle and as a ruling motive in Canadian life is also denied.

But where coal is concerned, there is an added emphasis from the national standpoint. An industrial nation, possessing armies and navies, with immensely long lines of communication and inhabiting a northern country, must have coal and coal in plenty. If Canada does not utilize its own coal resources, if it unnecessarily imports coal from outside its own borders, it will become impotent to stand alone and, in time of danger, must sacrifice its autonomy to its need for coal.

Briefly and plainly, if Canada depends upon a neighbor for her coal supply and allows her own coal production to lag through neglect or inadequate use, she not only restricts development of the outlying sections of her structure, but rests her national future upon the generosity of that neighbor.

Conclusion

The Institute wholeheartedly supports the declaration from the conference of Provincial Ministers of Mines. It trusts that this submission will assist the Commission in its efforts to establish a national coal policy, to the end that the coal industry of Canada may be stabilized on a sound economic basis, capable of supporting prosperous communities and assisting in the re-establishment of the Canadian people.

DR. A. E. CAMERON (already sworn) EXAMINED BY MR. FRAWLEY

Q. Dr. Cameron, on page 5 of your brief you say - "It is reasonable to expect that the cost of imported coal and liquid fuels to consumers in Canada will rapidly rise." I wonder what you had in mind to support that statement?

A. The idea there is that the presence of Canadian coal upon a

Canadian market will always act as a restrictive influence in raising the cost of foreign coal coming into the country.

Q. Of course Canadian coal cannot get to the Central Canadian market under its own steam?

A. That is true.

Q. So it is a matter of government assistance?

BY COMMISSIONER McLAURIN - It gets to Montreal under its own steam?

EXM. BY MR. FRAWLEY (continued)

Q. Do you mean the presence of Canadian coal in Montreal, but not assisted further, will have an effect?

A. Definitely, Sir.

Q. Would that satisfy this function if the Canadian coal only got into Montreal Harbor?

A. There is Western coal coming as well as Eastern coal.

Q. How far does it get into what we call Central Canada, without assistance?

A. Well we are not prepared to say, Sir, how far it might go, but there are possibilities that it can come from the west.

Q. Not with subsidy.

BY COMMISSIONER MORRISON - Mr. Frawley, there have certainly been submissions made to this Commission where they indicate that coal can come from Western Canada without assistance provided certain rates were fair, as they term it.

BY MR. FRAWLEY - Freight rates?

A. Yes.

EXM. OF MR. CAMERON BY MR. FRAWLEY (continued)

Q. If you reduce the freight rate you could move the coal further, but assuming the freight rate stays where it is, by and large Western coal cannot come into Central Canada without government assistance? Is that right?

A. I would question the complete rightness of that. There are mines in the West that it might come from depending on the cost of production. The cost to the consumer is cost of production plus freight.

Q. I was under the impression that Western coal however cheaply mined, could not come into Central Canada, say the Toronto area, without assistance.

BY THE CHAIRMAN - What do you mean by Central Canada?

BY MR. FRAWLEY - I say, the Toronto area

DR. CAMERON - \$8.00 plus \$1.50, or \$9.50 might be competitive.

EAM. OF DR. CAMERON BY MR. FRAWLEY (continued)

Q. In any event what you mean is that you want the Canadian coal to at least function as a partial deterrent of the price?

A. Right.

Q. And you think even if it got to Montreal Harbor, and it does without subsidy, that that is enough to influence and stabilize the American price?

A. At Montreal.

Q. And you think otherwise the American prices might go up?

A. Conceivably they could.

Q. You have nothing to offer to the Commission indicating at any time in the past where it has done that?

A. No sir.

Q. Now I don't know quite what you mean when you say on page 7 when you say that your Institute "considers that regional and even individual adjustments will be necessary to synchronize various units of the industry into a national co-ordination."

A. It considers with the regional conditions of coal production and freight, and even the individual operations of a given coal mine, the coal operation may have to have assistance if the whole units of the industry are to be of this assistance to Canada.

Q. There may be something in what you say. Can you illustrate for us concretely what you mean? Are you saying, keep Western coal in Western Canada, or something of that sort?

A. We feel that the Canadian coal problem, whether in the East or West, in order that the Canadian coal can reach the Canadian consumer, and therefore in order that the Canadian coal mines can continue to operate on a substantial scale, a given region situated

at some distance from a given market may need substantial assistance to allow its coal to enter that market. I am trying to think of a particular case, I don't know whether I can or not off-hand. If we take the region of Springhill let us say. It has a definite problem to get its coal by water or rail to the Montreal market. Now that would hold for the Springhill or Joggins area, anything other than the seaboard areas. It would hold for the Drumheller also, or Saunders Creek areas in the West.

Q. If you only mean they must have assistance to get to that market, that is exactly what is happening.

A. But if their mining conditions are such that in order to get their coal to the surface cheap enough so that the surface cost plus the freight will give them an opportunity to enter the market.

Q. Do you mean there should be a continuance of the production subsidy that has been prevalent in war time?

A. There may be a need for individual production subsidy.

Q. Do you think there could be a continuance of production subsidy without a larger measure of control by the people putting up the production subsidy?

A. There could be assistance in the rehabilitation of the operations, in the rehabilitation of the mines so that cheaper coal could be produced.

Q. I just want to understand what you say. Operate from freight subvention in which these mines participate, because subvention regulation is general in its application. Apart from that, you say there should be some assistance given to assist the coal to get to the pithead before it goes anywhere?

A. Yes.

BY THE CHAIRMAN - Would you suggest a gratuitous donation?

A. Not necessarily; it could be repayable from loans.

BY COMMISSIONER MORRISON - As, if and when?

A. Yes, as the decreasing costs could return the money.

BY COMMISSIONER McLAURIN - You are in favor of having the money put up anyway if necessary, whether secured or unsecured? Or do you only favor a self-liquidating loan that could be repaid,

something that a prudent man of business would invest in?

A. I think the interested prudent man of business would say that the loan should be repayable.

Q. And should not be loaned unless it is repayable?

A. Yes.

EKM. BY MR. FRAWLEY (continued)

Q. You say the total extent of government assistance should be one applicable to the whole industry, to be taken advantage of by those who can, and let the consequences attend those who cannot?

A. That seems to be what is indicated.

Q. No, that is quite contrary to what you say. I put it to you that any government assistance should be of a general character to be taken advantage of by those minds that can take advantage of it, and those that cannot, let them go under?

A. There are always cases where in the question of conservation of our coal supplies, of our coal resources, it may be necessary to assist a given operation in order that the maximum return should come from that resource, rather than allow some new operation to take place which will sacrifice the older one.

Q. To be perfectly correct, do you think that notwithstanding the high mining cost of getting coal out of Springhill, that to conserve the coal resources, that the government of Canada should put money in to help this coal coming to the surface and conserve the resource?

A. Up to the point where the coal, or the costs thereof get to some maximum limit.

Q. There should be a limit beyond which the Government should say so far and no further?

A. Yes.

Q. Do you know something of the Springhill costs?

A. Yes.

Q. You don't think that limit has been reached yet?

A. No, not yet.

Q. Now at the bottom of page 8 you again use some general language which I want you to elaborate on: "Adequate financial arrangements

should be established and assured for a reasonable period of time," to permit stabilization of markets. Perhaps that is what you have just been discussing with me, is it?

A. I think so.

Q. On page 10 you come to this Quebec conference that we have heard quite a lot about and you say at that time the Mines Ministers of the Provinces resolved that coal should be recognized as a national public necessity, and that, arising from this, there should be a national fuel policy. I suppose coal is a national public necessity?

A. I don't think anyone can deny that.

Q. And it is a question of how much it should cost the government to keep the Canadian coal coming from the mines, or let competition have its play and keep it coming from the American mines. That is perhaps a little cryptic way of putting it.

A. There must be a line drawn somewhere, Sir.

Q. You do speak about embarrassments. You are not endeavoring to make a point there that we have been under any embarrassment in endeavoring to keep our coal supply augmented from the United States?

A. I think the embarrassment there would refer probably to that and certainly to the general problem of proper distribution of the coal available to the Canadians during the last five years.

Q. You use the word "humiliation". You don't regard it as a humiliation that we should go to the United States for our coal in Central Canada, or do you?

A. I would think that is what the brief intends. I am only spokesman for a committee.

BY THE CHAIRMAN - Humiliation should be kept at the door of those who are not giving us competent coal operations.

BY MR. FRAWLEY - We are certainly in the valley of humiliation except for the Federal Treasury to bring the Nova Scotia coal up.

BY THE CHAIRMAN - Why Nova Scotia coal?

MR. FRAWLEY - Nova Scotia, or any other Canadian coal; your coal and my coal. All that bothers me about this business of coal being a national necessity, just for the sake of argument..

BY THE CHAIRMAN - Why should you argue with him?

BY DR. CAMERON - Is it not humiliating to the industry that it has to go pleading to the Government for assistance? I think that is in the back of the minds of the brief, also.

BY MR. FRAWLEY - If you are transferring that from the people of Canada to some coal operators, I am inclined to think it must be. A. And it is due to the fact that the physical location of the coal seems to be far away from the utilization of coal.

BY THE CHAIRMAN - There are other basic reasons for the cause for humiliation too.

EXM. OF DR. CAMERON BY MR. FRAWLEY (continued)

Q. You say on page 12 - "If Canada does not utilize its own coal resources, if it unnecessarily imports coal from outside its own borders.." What would you regard as an unnecessary importation?

A. Certainly the importation of more coal from the outside than can be reasonably supplied from its own.

Q. When you say reasonably supplied, you are getting down to what should be reasonably taken from the Federal Treasury to keep it moving?

A. That is right. There is no alternative to that.

Q. It comes to a matter of dollars and cents?

A. Absolutely.

Q. How much should this coal industry cost the Federal Treasury?

A. That is the problem.

BY COMMISSIONER MORRISON - At that point, and following one step further. If the industry were to continue functioning in the manner you describe and the government continually kept putting money into it, would you be in favor of the Federal Government going the rest of the way and taking it over altogether and operating it as a national utility inasmuch as they would be interested to the extent that you would consider reasonable? How far would you go?

A. That is a pretty grave question to answer. I think that is what your Commission has to decide.

Q. But we are looking for help, and we know of nobody better qualified to help.

A. I am here as President of the Mining Institute, not as Deputy Minister of Mines for Nova Scotia. If you would ask our Institute to give you an answer to that question, we would be glad to prepare another brief on it.

Q. Your Institute has come to us today and said that the Federal Treasury should put up a reasonable amount of money.

A. I would say that the Institute considers that your Commission is capable of finding that medium line.

BY THE CHAIRMAN - That was not altogether the question. I think the question put to you was whether if this industry cannot get along without continuous supplies of money from the Dominion Treasury, should we recommend the government of this country that the Government should take over the mines and operate them?

A. There will always be certain sections of the industry that can operate without government assistance.

BY COMMISSIONER McLAURIN - We are talking of the ones that need assistance.

A. That becomes a question.

BY THE CHAIRMAN - Perhaps we should not ask you to answer that question. It has become somewhat of a political question.

BY COMMISSIONER McLAURIN - If you were speaking as Deputy Minister of Mines for Nova Scotia you would know how to answer it, as to what you are doing there now.

EXM. OF DR. CAMERON BY MR. FRAVLEY (continued)

Q. You say they should spend a reasonable amount, and until they pass that line they should not seek to have any voice in the management of the industry?

A. I think that would be right.

Q. Then if they pass that line you think they should have, not complete ownership certainly, but a much stronger voice in the management?

A. If the industry cannot keep out of the need of assistance beyond that limit which must still be set up, then I say there is no alternative.

Q. Would you say a voice in the management, or ownership?

A. I would say a voice in the management.

Q. First anyway?

A. Yes.

BY COMMISSIONER MORRISON - Providing they put some money in along with the voice?

EXM. BY MR. FRAWLEY (continued)

Q. You suggest at the bottom of page 12 that Canada rests her national future upon the generosity of that neighbor. That neighbor, I suppose, being the United States of America?

A. Yes.

Q. Do you think the coal is coming here out of a sense of generosity?

A. Undoubtedly they have been generous in the supply of coal to Canada during the war.

Q. You mean that Canada has been treated like one of the states, but outside of that, it is simply the good old profit motive?

A. Yes.

Q. And that would be a much better thing to depend on than generosity as far as our future is concerned?

A. Well if there is no opposition to the American coal coming into the market, then I think you have a closed market and they can do what they like with it.

Q. Suppose there is no more Nova Scotia coal that can go into Central Canada except what comes up the St. Lawrence.

A. I would like to be divorced from Nova Scotia, I am representing the Canadian Institute of Mining and Metallurgy.

Q. But Nova Scotia is producing more coal than Mr. Morrison's people now. Let us say there is no other coal at all, it is all from the Americans, do you think they would run up the price?

BY THE CHAIRMAN - Didn't you start to talk of the St. Lawrence market?

EXM. BY MR. FRAWLEY (continued)

Q. Let us say that the coal that got in was only what got in under its own steam from either east or west. Do you think then

the United States would be in such an advantageous position that they would run the price up?

A. Yes, I think to pretty near what the Canadian coal would cost the consumer to get.

Q. What have you got in support of that statement, anything in the history of the dealings?

A. No.

Q. Anything in the past 20 years or so?

A. There has always been that break on the American costs of some competition.

Q. I understand that the Canadians paid the same price at the mine that the American producer paid. If that is so, it has not been Canadian coal that kept any break in price, because surely Canadian coal does not establish any American price at the mine for Americans?

A. No.

BY COMMISSIONER MORRISON - Would not competition among themselves regulate that price?

MR. FRAWLEY - I would think so.

BY THE CHAIRMAN - Dr. Cameron, number 5 of your suggestions on page 4 - "Insurance that future developments will be in keeping with proper conservation of the country's coal resources." And you mention in other places where it may become necessary to close down mines that are now operating. Is that a good cure for the preservation of our coal resources, to close down the mines from which all of the coal has not been extracted?

A. The question becomes one of when is coal a commercial product. It is true you can go on indefinitely winning coal if you forget the question of cost, and you can take the last pound of coal out. On the other hand there is always a market limitation. Now I think I am right in saying that our argument would be that once a mine has reached what it considers the limit of its economic operation, there would be justification for assistance to that mine to let them go a certain distance further in order to extract some more of that coal body. Undoubtedly there is going to be a time when

to make our coal supply in Canada sufficient for the consuming public, and that is why I raised that question here at all of the word "probable". The people of this country, I am talking of the men who go down in the mines and dig coal, if they were given to realize especially in times of stress, that it was absolutely impossible for the coal operations in this country to economically supply the Canadian markets, now and in the future, it would eliminate a lot of difficulty and trouble. Here is another statement - "While there has been some new development to meet sectional wartime requirements, the fact remains that the total productive capacity is, nevertheless, considerably less than the normal needs for coal by the Dominion." Why considerably less?

1. It could have been said 50% less.

2. A little more perhaps during war time?

3. The specific figure might have been given.

Q. Has it never occurred to your Institute that the great question that arises about the proper coal supply for Canadians from Canadian mines is the question of national income? That is, the more coal we produce ourselves, the more men we have working in the coal districts, the greater will be our national income?

A. That is true.

Q. Would that, do you think, to some extent assist our Governments, would you say would be of some assistance, or some argument to our governments to give some assistance to the coal operations while they are in their present distress?

A. I think so.

Q. I have not seen a brief yet asking for government assistance that made that argument.

BY MR. FRAWLEY - The order you have Mr. Chairman is very tentative: Mr. McElvany was to have come on next, but it seems to me that the National Coal Association brief is much more general, and I am going to ask Mr. Glover now to present it.

EXHIBIT 213 - BRIEF OF NATIONAL COAL ASSOCIATION.

MR. H. A. GLOVER takes the stand - Examined by Mr. Frawley

Q. You are an Executive Officer of the Island Creek Coal Company?

A. Yes.

Q. Vice-President in charge of sales?

A. Yes.

Q. And the Island Creek Coal Company is a member of the National Coal Association?

A. That is right.

Q. And the brief has been signed by Mr. J. D. Battle, Executive Secretary of the National Coal Association, and you are here to present it on behalf of the Association?

A. That is right.

Q. Will you just read the brief and if anything comes up we will ask you about it.

MR. GLOVER then read Exhibit 213, as follows:

This brief is filed by the National Coal Association, a non-profit corporation, representing approximately 75% of the bituminous coal tonnage produced in the United States by commercial producers. Its membership is nationwide. Its function is one of service to the bituminous coal industry. It co-operates with government, state, and local officials in an effort to facilitate the movement and production of bituminous coal. It was created out of necessity in the troublesome year of 1917.

The above is by way of identification in order that your honorable Commission may know that, in general, the producers of bituminous coal in the United States are very much interested in the study that your Commission is making of the problems of the coal industry in Canada.

We would like to make it clear at the outset that any statements made in this brief are intended in no way to reflect on the industry of our neighbor, Canada, in the handling of its coal problem. Nor is it intended as any criticism whatsoever of the fiscal policies of the Canadian Government. Our objective is to lay facts before you with respect to the bituminous coal industry of the United States, many of which may have been presented

by individuals or groups heretofore.

However, it is our desire that your honorable Commission understand that we speak for the bituminous coal industry as previously described.

The American coal producers in conjunction with Canadian importers have over a period of years attempted to faithfully serve the very important Canadian market for bituminous coal. Naturally it is the desire of the producers of the United States to continue to serve this market in such a way as to merit the approval of our Canadian customers and the Canadian Government.

That is our motive in requesting an opportunity to make the presentation to the Royal Commission on Coal for Canada.

Your attention is directed to the following table showing the production of bituminous coal in the United States from the year 1920 through 1944 and an estimate of the production for 1945.

TABLE I

| <u>Year</u> | <u>Total Production (Net Tons)</u> |
|-------------|--|
| 1920 | 568,666,683 |
| 1921 | 415,921,950 |
| 1922 | 422,268,099 |
| 1923 | 564,564,662 |
| 1924 | 483,686,538 |
| 1925 | 520,052,741 |
| 1926 | 573,366,985 |
| 1927 | 517,763,352 |
| 1928 | 500,744,970 |
| 1929 | 534,988,593 |
| 1930 | 467,526,299 |
| 1931 | 382,089,396 |
| 1932 | 309,709,872 |
| 1933 | 333,630,533 |
| 1934 | 359,368,022 |
| 1935 | 372,373,122 |
| 1936 | 439,087,903 |
| 1937 | 445,531,449 |
| 1938 | 348,544,764 |
| 1939 | 394,855,325 |
| 1940 | 460,771,500 |
| 1941 | 514,149,245 |
| 1942 | 582,692,937 |
| 1943 | 590,177,069 |
| 1944 | 620,000,000 (est.) |
| 1945 | 575,000,000 (est.) |

BY MR. GLOVER - I would simply call your attention to the fact, if I may, that in the last year 1940, well say 1939, before the market became more active because of the war condition, the production was 394,000,000 tons, and in the year 1944 with a constantly declining man-power, it was increased to 620,000,000 tons with practically no new mines and practically no additional facilities.

(P. 4247 full wt)

A mere glance at this table will clearly demonstrate the flexibility and great producing power of the bituminous coal mines of the United States. It can be said here that even though this industry went through a tremendous and disastrous depression over a period of years, that very depression drove the coal mine owners to extraordinary measures with respect to greater efficiency in mining, to a better preparation of their product, to perhaps a keener appreciation of competitive conditions, and also to a higher degree of mechanization, all of which have contributed largely to the industry's ability to expand rapidly when the necessity arose because of the War.

The bituminous coal mine owners of the United States are particularly proud that they were able to meet the crying needs of our nation when War came and at the same time be of service to our neighbor on the north. This tremendous increase in volume was accomplished during the War without financial aid of our Government and without any subsidies or financial assistance whatsoever. The bituminous coal industry of the United States has reached its high state of development, as heretofore and hereafter described, as a result of the free American enterprise system, and its magnificent development is a product of that system.

The following table, just for ready reference, indicates the expansion in exports of bituminous coal to the Dominion of Canada in recent years necessary to take care of war-time demands. It is of course understood by all concerned that in the distribution of coal, Canada was treated exactly the same as if it were a portion of the United States, and in some instances, where necessity seemed to require it, some preference was given to the movement of coal to Canada in the interest of the common cause.

TABLE II

| <u>Year</u> | <u>Exports to Canada (Net Tons)</u> |
|-------------|---|
| 1934 | 9,941,371 |
| 1935 | 9,168,428 |
| 1936 | 10,042,127 |
| 1937 | 12,338,938 |
| 1938 | 9,466,702 |
| 1939 | 9,836,110 |
| 1940 | 13,382,389 |
| 1941 | 17,801,103 |
| 1942 | 20,797,225 |
| 1943 | 24,292,717 |
| 1944 | 24,513,527 |

MR. GLOVER: This table simply shows that from 1934, when it was 9,900,000, it was increased to 24,500,000 in 1944. You might take a later year if you care to, 1939, which was 9,836,000, and in six years' time it was increased to 24,500,000, over two and a half times as much. (Continues brief):

In order that some of the statements above may be translated into figures, it is interesting to note that tons of production per man per day in the United States reflect the efforts of the bituminous coal mine owners as well as labor. Those figures follow::

TABLE III

| <u>Year</u> | <u>Net Tons Mined Per Day Per Man</u> |
|-------------|---|
| 1930 | 5.06 |
| 1931 | 5.30 |
| 1932 | 5.22 |
| 1933 | 4.78 |
| 1934 | 4.40 |
| 1935 | 4.50 |
| 1936 | 4.62 |
| 1937 | 4.69 |
| 1938 | 4.89 |
| 1939 | 5.25 |
| 1940 | 5.19 |
| 1941 | 5.20 |
| 1942 | 5.12 |
| 1943 | 5.38 |
| 1944 | 5.50 (est.) |

MR. GLOVER: It went down in 1934 to 4.40. It has now risen again to 5.50 and is apparently continuing to increase, and will for some time yet, perhaps. (Continues brief):

It must be understood that on April 1, 1934, the hours of work per day were decreased from 8 to 7, and the 7-hour day

became the standard until emergency changes required longer hours because of the war demand for coal.

By reason of this record and speaking generally, for instance, an increase of \$1 per day in the payment to miners is reflected in an increase by a certain number of cents per ton. Generally for the United States it will average between 20¢ and 25¢ per ton; however, in some of the outlying districts, not serving Canada, the cost will be more per ton.

There is a grade, quality and kind of coal produced in the United States to meet all requirements. In other words, the range is complete from lignite on to the very highest grades needed in steel manufacturing, gas producing, coke making, etc.

Previous reference was made to the tremendous growth in mechanization in American mines. Some indication of this growth can be had from the table that follows:

TABLE IV

| Year | Cut by Machines | | Mechanically Loaded By Machines | | Mechanically Cleaned | |
|------|-----------------|-------------------------|---------------------------------|-------------------------|----------------------|------------------------|
| | Net Tons | % of Under-ground Prod. | Net Tons | % of Under-ground Prod. | Net Tons | Percent of Total Prod. |
| 1923 | 377,435,543 | 68.3 | 1,879,726 | .3 | 20,140,385 | 3.8 |
| 1924 | 336,271,335 | 71.5 | 3,495,522 | .7 | (1) | (1) |
| 1925 | 366,725,758 | 72.9 | 6,147,956 | 1.2 | (1) | (1) |
| 1926 | 410,912,680 | 73.8 | 10,022,195 | 1.8 | (1) | (1) |
| 1927 | 374,040,637 | 74.9 | (1) | (1) | 27,692,047 | 5.3 |
| 1928 | 369,687,007 | 76.9 | 21,559,233 | 4.5 | 28,783,039 | 5.7 |
| 1929 | 403,606,717 | 78.4 | 37,861,496 | 7.4 | 36,799,120 | 6.9 |
| 1930 | 362,425,163 | 81.0 | 46,982,298 | 10.5 | 38,799,619 | 8.3 |
| 1931 | 302,262,746 | 83.2 | 47,562,108 | 13.1 | 36,172,373 | 9.5 |
| 1932 | 243,954,770 | 84.1 | 35,816,909 | 12.3 | 30,278,369 | 9.8 |
| 1933 | 266,999,985 | 84.7 | 37,820,461 | 12.0 | 34,558,211 | 10.4 |
| 1934 | 284,676,715 | 84.1 | 41,432,735 | 12.2 | 39,826,559 | 11.1 |
| 1935 | 293,664,208 | 84.2 | 47,177,224 | 13.5 | 45,361,021 | 12.2 |
| 1936 | 348,332,330 | 84.8 | 66,976,872 | 16.3 | 61,094,976 | 13.9 |
| 1937 | (1) | (1) | 83,500,000 | 20.2 | 65,000,000 | 14.6 |
| 1938 | 278,315,365 | 87.5 | 85,092,836 | 26.7 | 63,454,588 | 18.2 |
| 1939 | 313,969,394 | 87.9 | 110,711,970 | 31.0 | 79,429,426 | 20.1 |
| 1940 | 369,227,277 | 88.4 | 147,870,252 | 35.4 | 102,269,753 | 22.2 |
| 1941 | 408,510,296 | 89.0 | 186,667,250 | 40.7 | 117,539,522 | 22.9 |
| 1942 | 462,344,719 | 89.7 | 232,902,920 | 45.2 | 142,187,346 | 24.4 |
| 1943 | 461,051,743 | 90.3 | 249,805,214 | 48.9 | 145,575,849 | 24.7 |
| 1944 | (2) | (2) | 265,000,000 | 50.5 | 150,000,000 | 24.2 |
| | | | (est) | (est) | (est) | (est) |

(1) Data not available

(a) 1944 figures for tonnage cut by machines are not yet available, but the steady trend upward continues.

MR. GLOVER: This table simply calls your attention to the fact that in 1923 three-tenths of one percent of the underground production was loaded by mechanical methods. It is estimated that in the calendar year 1944 fifty and five-tenths percent was so loaded, or from 1,800,000 tons up to 265,000,000. That is the growth of mechanical loading during that period, and the trend is continuing now. (Continues brief):

This is a progressive movement. It is continuing. It will continue. Each year a large number of mines will be added to the mechanized group. It is efficiency. It is the long range view of the bituminous coal industry of the United States. Numerous mines lend themselves to mechanization, and as rapidly as finances and equipment are available, they will be mechanized.

As a matter of record and information, there is a table following which shows the production of coal by strip mines in the United States over a period of years, illustrating clearly the growth in this field of mining. If this growth continues, average production per man per day throughout the country as a whole will increase.

TABLE V

| <u>Year</u> | <u>Mined by Stripping</u> | |
|-------------|---------------------------|--|
| | <u>Net Tons</u> | <u>Percent of Total Production</u> |
| 1923 | 11,940,134 | 2.1 |
| 1924 | 13,606,954 | 2.8 |
| 1925 | 16,270,907 | 3.2 |
| 1926 | 16,922,695 | 3.0 |
| 1927 | 18,378,166 | 3.6 |
| 1928 | 19,788,577 | 4.0 |
| 1929 | 20,268,099 | 3.8 |
| 1930 | 19,842,359 | 4.3 |
| 1931 | 18,932,381 | 5.0 |
| 1932 | 19,641,128 | 6.3 |
| 1933 | 18,270,181 | 5.5 |
| 1934 | 20,789,641 | 5.8 |
| 1935 | 23,647,292 | 6.4 |
| 1936 | 28,125,857 | 6.4 |
| 1937 | 31,750,853 | 7.1 |
| 1938 | 30,406,855 | 8.7 |
| 1939 | 37,722,583 | 9.6 |
| 1940 | 43,167,336 | 9.4 |
| 1941 | 55,071,609 | 10.7 |
| 1942 | 67,202,663 | 11.5 |
| 1943 | 79,685,175 | 13.5 |
| 1944 | 95,000,000 (est) | 15.3 (est.) |

BY COMMISSIONER McLAURIN: If I might ask a question, your man per day production that you gave us previously covers strip coal too, does it?

MR. GLOVER: Yes sir. (Continues brief):

Even the troublesome years of the War have not stopped the advances made in the preparation of coal, and as soon as machinery and other equipment are made available as a result of the end of the War, these efforts will be augmented wherever possible in order that the high standard of preparation may not only be maintained, but advanced. Even before the War, coal was being made into sizes to suit the needs of the customer. Because the producers of coal are fully cognizant of the fact that the users of coal must be supplied with the particular kind required, no efforts have been spared with respect to this phase of mining. Necessarily, the processes herein outlined bring about a cleaner and better coal.

It will be interesting to note that in meeting the great demands made upon the industry because of the War, very few new mines have been opened. On the other hand the well established mines were able to so organize themselves in the main, as to meet the needs for a greater quantity of coal. Official records indicate that in 1941, the number of mines operating in the United States was 6,822; in 1942, 6,972; in 1943, 6,620; and in 1944 an estimated 6,400. With respect to recoverable reserves of coal, as of January 1, 1944, they were shown to be 1,615,457,231,768 tons.

All of what has been said doesn't mean that during the War period our industry has not had handicaps such as shortages of labor. There was no wholesale deferment of coal miners from the armed services. The coal mining industry, as represented by management as well as labor, was only too glad to cooperate with the Government by furnishing technicians and experts, and its full share of men to the armed services to overcome our common enemy.

Something like 120,000 men left the mines - a great majority for service throughout the world in every branch of the military, the Army, the Navy, the Marines, the Coast Guard, the Merchant Marine, etc. In spite of this loss of men, and in many instances at great sacrifice, the mining companies on the whole increased production in support of the war effort. The mines at this time find themselves well equipped, and with prospects of being better equipped within a few months, and able to meet all the requirements that can reasonably be made upon them. Adjustments are slowly taking place. Many innovations and improvements will have grown out of the extraordinary efforts made, all of which should reflect themselves in a more efficient mining industry.

The bituminous coal mining industry is sponsoring and carrying on a vast amount of research which will reflect itself from the standpoint of a better coal. Such questions as ash fusion, coal structure, the burning characteristics of coal, the sulphur content, the volatility, and smoke elimination are all under study in order that the industry may ^{more} efficiently serve its customers and more nearly meet the requirements of the coal burning equipment now in use in Canada and the United States.

BY THE CHAIRMAN: Does your Federal Government assist in the matter of research? Have they not set up a bureau for research?

MR. GLOVER: They do some fundamental research in the Bureau of Mines, but the research he is speaking of here is supported one hundred per cent by the producers and carriers and some other interests, but they are private interests.

BY MR. FRAWLEY: Is the Bituminous Coal Research Institute open to membership from Canadian producers?

MR. GLOVER: I should say they would welcome anybody. I can't answer that officially, but I should say, as a director of Bituminous Coal Research, they will welcome anybody that wants to join in the support of the movement, whether they are Canadian

producers of Canadian railways, American producers of American railways, equipment manufacturers or anyone interested in supporting the movement.

BY MR. FRAWLEY: Do you know whether any Canadian producers hold membership in the Institute?

MR. GLOVER: I can't answer that question. (Continues brief):

The research program mentioned is being carried on through a subsidiary of the National Coal Association sponsored by that organization, under the name of Bituminous Coal Research, Inc. It is supported by bituminous coal producers throughout the country as well as a number of railroads and other interests. The research organization was founded for the purpose of developing new and improved burning equipment and new methods of utilizing coal, both of which will add to the satisfaction and economy in the use of bituminous coal. New and improved heating stoves, furnaces, and coal stokers have already been developed, and will, in the not too distant future, be placed on the market.

A very active search is being carried on to develop more efficient railroad locomotives which will compete efficiently with diesel energy. Up to date, there are very encouraging results. Naturally any developments under this program will be made available to the consumers of bituminous coal in the United States, and incidentally should aid the consumers of bituminous coal in the Dominion of Canada.

It is well understood by all having knowledge of coal that it requires coal from various areas and districts to meet the requirements and characteristics of the wide range of coal burning equipment. That is one of the reasons why research and study are being made on a national scale. Let it be emphasized here that any benefits flowing from these efforts will naturally react to the good of all of the customers of the producers of coal in the United States wherever located.

It is respectfully submitted that the motives behind these efforts stem from the realization that the cost to the consumers of installing new equipment is excessive, if by chance the source of supply is limited to certain type coals.

It is with a real source of pride that the producers of coal in the United States supplied their Canadian customers with the same coals from the standpoint of quality, preparation, and price under war-time demands as they did their home markets. The fact that there were established connections, business relationships of long standing, contributed largely to this effort. It is the earnest hope of the American coal producers that they may be permitted to continue and enlarge, if possible, the flow of coal to their neighbors on the north.

It may not be amiss to point out that generally speaking when great emergencies arise in our country, somewhat similar emergencies arise in the Dominion of Canada, primarily because they result from the same causes. This is said in order to emphasize the fact that established connections, credit arrangements, and business practices, are vital in order that such emergencies may be met.

In full recognition of the serious problem confronting your honorable Commission and in the light of actions taken by our respective Governments looking towards a freer flow of commerce between nations, it is the earnest hope of the producers of bituminous coal in the United States that these efforts will be crowned with success for the common good. It is not the purpose of this brief to make any representations to your Commission on this subject other than to suggest that in further cementing the friendship and relationship between our countries, there should be nothing to retard or handicap commerce between them.

It is reiterated here that this brief statement is filed on behalf of the producers of coal throughout the United States represented by this organization with no particular reference to any producing district or with any particular reference to any type of bituminous coal.

It is respectfully submitted that the transportation facilities, both rail and water, taxed as they have been throughout the War, have rendered yeoman service in transporting coal throughout this nation and to Canada. Naturally this service will be more adequate and improved as we get further away from the horrors of war.

Respectfully submitted

JOHN D. BATTLE
Executive Secretary
National Coal Association
Washington, D.C.

BY MR. FRAWLEY: It has been our practice to swear the witness before we enter into the formal discussion.

Witness sworn by the Chairman as to facts, and that he have a sound and reasonable basis for any opinions expressed.

EXAMINED BY MR. FRAWLEY:

Q Mr. Glover, you say on page 5, with reference to the increase in the mechanical cleaning of coal in your industry that it has jumped from 3.8 percent of the total production in 1923 to an estimated 24.2 percent in 1944. Now I would like you to make a few observations on that growth. What was the cause for that very large growth in mechanical cleaning and preparation?

A Several reasons for that. Competitive conditions required it, for one thing. Another factor was the increase in mechanical loading, which requires mechanical cleaning.

Another was the development of improved mechanical equipment which became available during that period to the mines, and lastly, while I don't claim an unselfish position on the part of the producers, we were brought to a realization that the demands of the market were such that improved sizing, cleaning methods and improved qualities were essential if coal was to retain its rightful place in the general fuel picture.

Q The coal that goes into the industrial market is also

cleaned, as well as the coal that goes into the domestic market?

A Yes sir.

Q Would you think that an American producer endeavoring to participate in the market in a large way would have difficulty in holding his place if he had no mechanical cleaning of any kind?

A My personal opinion would be that he would.

Q Do you find in your industry that even where there is no mechanical loading there is a need for mechanical cleaning?

A Yes.

Q Now, Mr. Glover, I would like to invite your opinion on the short statement in Dr. Cameron's brief: "Unless Canadian products provide more than merely potential competition, it is reasonable to expect that the cost of imported coal and liquid fuels to consumers in Canada will rapidly rise." Do you share the fear expressed in that paragraph?

A I wish I could, Mr. Frawley. However, if there were no Canadian coal produced at all, and Canada used three times as much coal as it does, we would not be able to increase our prices to Canada above our own.

Q The thing struck me, but I had heard that you people, far from putting the price up, used to put it down too far, dump coal in Canada?

A We have been accused of something like that.

Q The tendency certainly is to bring it down, not to put it up?

A That is true. There is very little doubt but what the increase in tons per man per day and the resulting efficiency has been divided almost equally between the consuming public and the workers themselves. I don't mean to say that the amount passed on was equal to the amount given to the miners, but the operators in general kept very little of it. It was passed on to the public or paid to the miners.

BY COMMISSIONER MORRISON: Sometimes not all of it.

BY MR. FRAWLEY: No one American producer of course has any monopoly of the Canadian market?

A That is very true.

Q It is fought for, I suppose, very keenly?

A Yes, the competition for Canadian business is extremely keen.

Q And I suppose like most other commodities that has something to do with keeping prices down?

A Yes.

Q And do I understand it to be so that the prices which the Canadians pay are the same prices, by and large, as the Americans pay for the same coal?

A That is true.

Q Now I don't think there is anything more. And if for any reason less Canadian coal rather than more Canadian coal was being sent into the Central Canadian market, would the American industry be able to take care of the increased demand?

A That is best evidenced by the fact that it increased its exports from 13,000,000 tons to 24,000,000 tons right during the period of emergency demands in the United States. I should say there would not be the slightest trouble on the part of the mines of the United States in taking care of any possible demand, industrial or domestic.

BY COMMISSIONER McLEURIN: Your production doubled, but your exports to Canada more than doubled?

A That's right.

Q I have one question I would like to ask. Turn to page 3, the second paragraph. You have this sentence: "This tremendous increase in volume was accomplished during the War without financial aid of our Government and without any subsidies or financial assistance whatsoever." Well, has the American industry at any time during the last 20 years had financial assistance at all? Isn't that statement equally

applicable to the production prior to the War?

- .. That is true, it never had. The principle thing in mentioning that here is that the production was increased so tremendously during the War by other industries in the United States, but the Government was building plants and doing everything of that kind in order to increase production in manufactured articles and things of that sort. Coal production was increased without one dollar of Government money and one dollar of Government investment in coal mining properties.

- Q And in considering world facts as to coal, you might say that, let us say for a period of 40 years there has been no financial aid by way of subsidies, subventions or aid of any kind from the Government to the coal industry of the United States?

- A None.

- Q And you are quite acquainted with the assistance given in Canada? You are also, I take it, in a general way acquainted with the assistance which has been given in England, France, Belgium, and Poland, so we would be safe in saying that probably the only country in the world where the industry has proceeded without Government assistance is the American coal industry?

- A Yes.

BY MR. FRAWLEY: I just want to ask Mr. Glover one more question.

You are aware in general of the system of Government subventions, freight assistance, speaking of the normal days.

What would you say was the real competition which American coal meets in the Canadian market?

- .. The real competition? Canadian coals and other fuels.
- Q Well, perhaps I didn't put my question very well. Supposing that there was no assistance whatever in the Canadian coal industry, would you be selling more coal up here?
- .. I think so, yes.

Q Is it right to put it to you that the real competition you meet in getting more American coal into this country is the Government assistance?

A I should answer that in a general way, yes. Obviously anything which reduces the delivered price of a competing fuel, whether it be oil, gas, water power or Canadian coal, does affect the exportation of American coals to Canada, and if those forms of assistance were removed, undoubtedly the result would be to increase the volume of exports of American coal.

Q I think we are talking about pretty obvious things, aren't we? Thanks very much, Mr. Glover.

BY COMMISSIONER McLAURIN: May I ask Mr. Glover still another question. Take the Guffey Act. The Guffey Act no doubt stabilized prices, and to the extent it stabilized prices it was in aid of the industry. Now was the complete administration of that Act paid for by the industry?

A Not only that. It was not only paid for by the coal industry itself but it produced a rather handsome profit for the Federal Treasury.

Q Which they still have?

A If they have not already spent it.

BY MR. FRAWLEY: It has been called to my attention that there was some aid in 1929, 1930 and 1931 for the export of coal, is that so?

A Not that I know of.

Q No assistance given by the United States Government, I suppose in the way of subsidy, for exporting coal in 1929, 1930 and 1931?

A Not that I know of.

BY COMMISSIONER McLAURIN: Just to clear this up, they had the United States Export Lines, which were virtually government-subsidized shipping organizations.

BY MR. FRAWLEY: That may be what Mr. Matheson had in mind.

BY COMMISSIONER McLAURIN: But not only coal benefitted by those Export Lines, but cotton or anything else shipped.

BY MR. FRAWLEY: We will now have the brief by Mr. McElvany.

MR. A. B. McELVANY: Since the filing of our advance copy it has been necessary for us to make two slight deletions in our brief, and I would like to substitute these ten copies for the advance copies filed with you.

Exhibit 214 - Brief on Behalf of Consolidation Coal Company, Hanna Coal and Ore Company, North American Coal Corporation, Pittsburgh Coal Company, Rochester & Pittsburgh Company, and Valley Camp Coal Company

BY MR. FRAWLEY: You are an executive officer of one of these companies, are you, Mr. McElvany?

MR. McELVANY: I am assistant to the president of the Rochester & Pittsburgh Coal Company.

BY MR. FRAWLEY: Now then, Mr. McElvany, will you proceed to put your brief on the record.

MR. McELVANY proceeds to read Exhibit 214:

This brief is submitted on behalf of the:

1. Consolidation Coal Company
2. Hanna Coal & Ore Company
3. North American Coal Corporation
4. Pittsburgh Coal Company
5. Rochester & Pittsburgh Coal Company
6. Valley Camp Coal Company

All of the above named companies are United States corporations engaged in the business of mining and shipping bituminous coal. Mines of these companies are located in the following districts:

District 1--Central Pennsylvania
District 2--Western Pennsylvania
District 3--Northern West Virginia
District 4--Ohio
District 6--West Virginia Pan Handle
District 8--Southern high volatile
(An explanation of the use of the above district terminology will be found later in the text.)

During the year 1944, these companies produced in excess of fifty million (50,000,000) tons of bituminous coal,

which was widely distributed by rail, lake and tidewater to destinations in the United States and Canada.

These companies have a special interest in the Canadian coal problem because they maintain subsidiary companies in Canada which distribute the coal of their principals, as well as other coals produced in the United States.

These subsidiary companies are as follows:

1.-2. Empire-Hanna Coal Company, Limited.

MR. McELVANY: I have designated that 1.-2, because that is a joint subsidiary of the Consolidation Coal Company and the Hanna Coal and Ore Company.

BY MR. FRAWLEY: Do you know where their Canadian chief place of business is?

MR. McELVANY: Toronto. (Continues brief):

3. Canada Coal Limited, Toronto also.
4. Pittsburgh Coal Company, Limited, also Toronto.
5. Rochester and Pittsburgh Coal Company (Canada) Limited, principal office, Montreal.
6. The Valley Camp Coal Company of Canada, Limited-- Toronto.

In normal times these latter companies import over 50% of the United States bituminous coal brought into Canada. Not only do these companies maintain offices in the principal cities of Canada for the wholesale distribution of coal but they also maintain or operate over a line of storage docks located on the Great Lakes waterway system extending all the way from Fort William on the west to Montreal on the east.

These docks are capable of storing millions of tons of coal which are held in reserve to meet the fuel requirements of the Dominion. The Canadian subsidiary companies pay for the coal f.o.b. the mines, the freight charges to the lower lake ports, the vessel charges, harbor dues, dock charges, duty, exchange, etc. and store coal to meet the Canadian demand. Most of this coal is paid for by Canadian consumers as moved off the docks; in other words, these subsidiary companies always have an investment of millions of dollars in inventory to assure Canadian consumers of an ample fuel supply.

Due to the fact that the companies presenting this brief all distribute through Canadian subsidiary companies and are closely connected with the Canadian coal problem, we feel that the facts set forth herein depict the situation insofar as it relates to the movement of United States bituminous coal to the Dominion of Canada.

STATEMENT

For a great many years, the bituminous coal industry of the United States has supplied a substantial portion of the normal requirements of the Dominion of Canada for such fuel. In addition, during times of stress such as the "First World War" (1914-1918), the United States anthracite strike (1925), the British coal strike (1926), the years of accelerated industrial activity (e.g. 1923 and 1937) and throughout the recent world-wide conflict (1939-1945), the United States bituminous coal industry has customarily supplied Canada with all of the additional tonnage required in order that Canadian homes would be adequately heated and that Canadian industry would be adequately fueled.

The table following (figures taken from reports issued by the Dominion Bureau of Statistics) indicates the tonnage of United States bituminous furnished as contrasted with the annual consumption of such fuels for a period of years.

TABLE I

| | Canadian consumption of Bituminous coal (1) from all sources | Bituminous coal imported from United States (Net Tons) | Percent from United States |
|------|--|---|----------------------------------|
| 1927 | 30,886,509 | 15,038,008 | 48.68 |
| 1928 | 30,151,579 | 13,822,036 | 45.84 |
| 1929 | 30,091,676 | 14,469,831 | 48.08 |
| 1930 | 28,208,670 | 13,199,076 | 46.79 |
| 1931 | 21,348,789 | 10,224,982 | 47.89 |
| 1932 | 19,718,291 | 8,170,248 | 41.43 |
| 1933 | 19,249,664 | 8,089,451 | 42.02 |
| 1934 | 22,387,011 | 9,941,371 | 44.41 |
| 1935 | 21,599,303 | 9,168,428 | 42.44 |
| 1936 | 23,809,611 | 10,042,127 | 42.17 |
| 1937 | 25,953,036 | 12,338,938 | 47.54 |
| 1938 | 22,818,000 | 9,466,702 | 41.48 |
| 1939 | 25,094,122 | 9,836,110 | 39.20 |
| 1940 | 29,758,069 | 13,382,389 | 44.97 |

(1) Includes bituminous, sub-bituminous and lignite.

TABLE I (Continued)

| | Canadian consumption of Bituminous coal (1) from all sources | Bituminous coal imported from United States (Net tons) | Percent from United States |
|------|--|---|----------------------------------|
| 1941 | 33,400,223 | 17,801,103 | 53.30 |
| 1942 | 37,343,497 | 20,797,225 | 55.69 |
| 1943 | 41,151,341 (2) | 24,292,717 | 59.03 |
| 1944 | 40,524,237 (2) | 24,513,527 | 60.49 |

(1) Includes bituminous, sub-bituminous and lignite.

(2) Available for consumption

The exports of United States bituminous to Canada have followed a rather uniform pattern, stated in percentage of total United States bituminous production, except in the years of stress when the United States bituminous industry has been called upon to export an increased percentage of its coal to Canada for the latter's needs.

The fact is disclosed in the following tabulation:

TABLE II

BITUMINOUS COAL

| | Total United States Production | Total exported to Canada | Percent exported in Canada |
|------|-----------------------------------|-----------------------------|----------------------------------|
| 1927 | 517,763,352 | 15,038,008 | 2.91 |
| 1928 | 500,744,970 | 13,822,036 | 2.76 |
| 1929 | 534,988,593 | 14,469,831 | 2.70 |
| 1930 | 467,526,299 | 13,199,076 | 2.82 |
| 1931 | 382,089,396 | 10,224,982 | 2.68 |
| 1932 | 309,709,872 | 8,170,248 | 2.64 |
| 1933 | 333,630,533 | 8,089,451 | 2.42 |
| 1934 | 359,368,022 | 9,941,371 | 2.77 |
| 1935 | 372,373,122 | 9,168,428 | 2.46 |
| 1936 | 439,087,903 | 10,042,127 | 2.29 |
| 1937 | 445,531,449 | 12,338,938 | 2.77 |
| 1938 | 348,544,764 | 9,466,70- | 2.72 |
| 1939 | 394,855,235 | 9,836,110 | 2.49 |
| 1940 | 460,771,500 | 13,382,389 | 3.12 |
| 1941 | 514,149,245 | 17,801,103 | 3.46 |
| 1942 | 580,000,000 | 20,797,225 | 3.59 |
| 1943 | 590,177,000 | 24,292,717 | 4.12 |
| 1944 | 620,000,000 | 24,513,527 | 3.95 |

Authorities:

United States Bureau of Mine Statistics
Dominion Bureau of Statistics

A cursory examination of Tables I and II would seem to indicate, that while United States bituminous represents a substantial percentage of the entire Canadian consumption, measured in percentage of United States production it is of

small moment and should be of little concern to the United States bituminous industry. This however is far from the proper interpretation to be placed on the preceding figures. This is so because the bituminous coal exported to Canada does not move from all of the producing fields in the United States to all the Provinces in Canada, but rather the United States producing fields of coal exported to Canada are located entirely in the Eastern Appalachian area (Price Area No. 1), while practically all of the exports move to the Provinces of Quebec and Ontario, including the head of the Lakes.

For the sake of clarification and in order that subsequent portions of this presentation may be more understandable, it is necessary to digress at this point to explain the regulatory provisions of the United States government under which we have operated since 1937 and some of the nomenclature commonly in use in the United States when dealing with the coal problem.

On April 26, 1937, the President of the United States approved, thus making it a law, legislation enacted by the Congress entitled "The Bituminous Coal Act of 1937." The necessity for and the purpose of the act, as viewed by Congress, is set out in the preamble to the legislation as follows:

"That regulation of the sale and distribution in interstate commerce of bituminous coal is imperative for the protection of such commerce; that there exist practices and methods of distribution and marketing of such coal that waste the coal resources of the Nation and disorganize, burden, and obstruct interstate commerce in bituminous coal, with the result that regulation of the prices thereof and of unfair methods of competition therein is necessary to promote interstate commerce in bituminous coal and to remove burdens and obstructions therefrom."

Under this law, provision was made for the establishment of minimum prices below which it was unlawful to sell coal. This law not only provided for the establishment of minimum prices for coal sold in the United States but also protected Dominion coal producers from having to meet "dumping" price competition by making such prices applicable also on coal forwarded to Canada. The provision of the Act embodying this

provision is as follows: Part II-e-Marketing:

"The minimum prices established in accordance with the provisions of this section shall not apply to coal sold and shipped outside the domestic market. The domestic market shall include all points within the continental United States and Canada . . ."

The measure of the minimum prices to be so established was provided in Paragraph "A" of Part 2 of the Act, inter alia, as follows:

"Said prices shall be proposed so as to yield a return per net ton for each district in a minimum price area, as such districts are identified and such area is defined in the subjoined table designated "minimum-price-area table", equal as nearly as may be to the weighted average of the total costs, per net ton, determined as hereinafter provided, of the tonnage of such minimum price area." (Italics ours)

Taking Price Area No. 1 as an example, this provision required that prices established for the individual Districts 1 to 8 inclusive in that area would return to the Price Area as a whole the weighted average costs of the Area. Prices established for one District might be slightly under the cost of production of that individual District, while in another District the prices established for it might slightly exceed its cost of production, but on the whole all of the prices established for all the individual districts would have to provide a return equal to the weighted average cost of the price area. The Act further provided that the year 1936 should be used as the base year for the computation of costs, such costs to be readjusted to give effect to any subsequent changes in wage rates, hours of employment or other factors substantially affecting costs.

It should also be observed at this point that the Act sets out certain specific items of cost which should be considered in arriving at the weighted average cost. These specific items were enumerated in Part II (a) of the Act as follows:

1. Labor
2. Supplies
3. Power
4. Taxes
5. Insurance
6. Workmen's Compensation

7. Royalties
8. Depreciation and depletion
9. All other direct expenses of production
10. Coal Operators' Association dues
11. District Board assessments
12. Reasonable cost of selling
13. Cost of administration

Particular attention is directed to the fact that certain very definite items of cost are not specifically provided for in the Act. Among such items are:

- (a) Interest
- (b) Taxes on reserve coal lands
- (c) Credit losses
- (d) Demurrage
- (e) Other miscellaneous costs

Thus, even though the cost of production in the various districts equals the ascertained costs as provided for in the Act, in order to provide for the additional costs enumerated above and return a profit on investment, it is necessary to secure a realization somewhat above established minimum prices.

The following table sets forth the cost of producing coal in Price Area No. 1 and the individual districts comprising that area (except District No. 5, from which no coal was exported to Canada) from 1936 through 1943. No later computation was prepared under the Act.

TABLE III

Weighted Average Cost of Producing Bituminous Coal per Net
Ton of 2,000 Pounds

| | | 1937 | | | | | | |
|-------------|------|------|------|------|------|------|------|----------|
| Total Price | 1936 | (1) | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 (2) |
| Area 1 | 1.89 | 2.10 | 2.13 | 2.00 | 1.94 | 2.20 | 2.37 | 2.58 |
| District 1 | 2.09 | 2.34 | 2.31 | 2.20 | 2.14 | 2.32 | 2.49 | 2.75 |
| District 2 | 1.96 | 2.17 | 2.26 | 2.08 | 1.98 | 2.22 | 2.38 | 2.53 |
| District 3 | 1.63 | 1.82 | 1.78 | 1.72 | 1.65 | 1.91 | 2.03 | 2.22 |
| District 4 | 1.72 | 1.92 | 1.90 | 1.76 | 1.71 | 1.89 | 2.02 | 2.22 |
| District 6 | 1.75 | 1.96 | 1.86 | 1.66 | 1.64 | 1.97 | 2.08 | 2.41 |
| District 7 | 1.95 | 2.17 | 2.23 | 2.08 | 2.04 | 2.38 | 2.62 | 2.89 |
| District 8 | 1.81 | 2.01 | 2.04 | 1.95 | 1.90 | 2.19 | 2.36 | 2.57 |

(1) April through September 1937

(2) January through June 1943.

Authority:

Table 1, page 21--Hearings before Committee on Ways and Means--House of Representatives, June 21 to July 5, 1943--on bills to amend the Bituminous Coal Act.

1943 figures:

Report of Special Committee to investigate gasoline and fuel oil shortages. United States Senate, Senate Resolution 156.

In 1941, the contract between the bituminous coal operators and the United Mine Workers of America expired and a new contract was entered into. This had the effect of increasing the cost of production in minimum price area No. 1 as set forth in Table No. III.

On February 4, 1943, at the request of the Solid Fuel Administrator for War, the bituminous coal industry and the United Mine Workers of America agreed to operate the mines six days per week instead of five days per week as provided for in the 1941 agreement. On November 29, 1943, after protracted wage negotiations and after the bituminous coal mines in the country had been seized by the government and operated under governmental supervision, a new wage agreement was approved, included in which agreement was a provision for an eight hour and forty-five minute day (forty-five minutes of which was assigned as travel time) instead of the seven hour day previously prevailing. Both the February 4, 1943 and the November 29, 1943 agreements had the effect of increasing the cost of production at bituminous mines in the United States.

The following table No. IV shows the average realization received for bituminous coal produced in Price Area No. 1 and in the individual districts (except No. 5) comprising Price Area No. 1 for the period 1936-1943 inclusive.

TABLE IV

Average Realization for Bituminous Coal, F.O.B. Mines Per
Net Ton of 2,000 Pounds

| | 1936 | 1937 | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 (2) |
|--------------------|------|------|------|------|------|------|------|----------|
| Total Price Area 1 | | (1) | | | | | | |
| District 1 | 1.81 | 2.00 | 1.96 | 1.91 | 1.92 | 2.25 | 2.45 | 2.75 |
| District 2 | 1.96 | 2.16 | 2.14 | 2.10 | 2.09 | 2.34 | 2.53 | 2.88 |
| District 3 | 1.92 | 2.10 | 2.05 | 2.03 | 2.01 | 2.25 | 2.43 | 2.71 |
| District 4 | 1.51 | 1.66 | 1.62 | 1.58 | 1.63 | 1.98 | 2.09 | 2.40 |
| District 6 | 1.66 | 1.79 | 1.77 | 1.69 | 1.71 | 1.99 | 2.06 | 2.38 |
| District 7 | 1.74 | 1.89 | 1.79 | 1.70 | 1.66 | 1.97 | 2.09 | 2.45 |
| District 8 | 1.87 | 2.08 | 2.05 | 1.96 | 1.99 | 2.44 | 2.73 | 3.09 |
| | 1.75 | 1.93 | 1.90 | 1.85 | 1.87 | 2.26 | 2.49 | 2.76 |

(1) April through September 1937

(2) January through June 1943

Authority:

Table II, page 22--Hearings before Committee on Ways and Means--House of Representatives, June 21 to July 5, 1943--on bills to amend the Bituminous Coal Act.

1943 figures:

Report of Special Committee to investigate gasoline and fuel oil shortages. United States Senate, Senate Resolution 156.

Effective minimum prices were established October 1, 1940 and it will be seen from a comparison of Tables III and IV that the realizations obtained by the producers in Price Area 1 (exclusive of District No. 5) both before and after the establishment of minimum prices closely approximated the average cost of production of the Price Area and the several districts comprising it.

In order that the individual mines in each District would have an opportunity to compete on a fair basis, the Act set up certain standards to be followed in establishing prices for the individual mines. These standards were set out in paragraph B of Part 2 of the Act as follows:

"All minimum prices proposed for any kind, quality, or size of coal for shipment into any common consuming market area shall be just and equitable, and not unduly prejudicial or preferential, as between and among districts, shall reflect, as nearly as possible, the relative market values, at points of delivery in each common consuming market area, of the various kinds, qualities, and sizes of coal produced in the various districts, taking into account values as to uses, seasonal demand, transportation methods and charges and their effect upon a reasonable opportunity to compete on a fair basis, and the competitive relationships between coal and other forms of fuel and energy; and shall preserve as nearly as may be existing fair competitive opportunities."

In carrying out this provision of the Act the coals of the individual districts were classified, that is, they were related one to the other under the standards set forth in the Act and then the prices established for each district were coordinated with those of each other district in the Price Area, all under the injunction to preserve existing fair competitive opportunities and return the weighted average cost of production.

These classifications and prices were then embodied into price schedules, a separate schedule being set out for each District. The grade or classifications of the coal were shown by a letter designation and the size of the coal by a numerical designation. The following Table No. V shows the minimum price

schedule which became effective for District No. 1 on October 1st, 1940.

TABLE NO. V

Minimum Prices for District No. 1 Effective October 1, 1940
Prices Per Net Ton f.o.b. Mines

| Class | Size Groups | | | | |
|-------|-------------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 |
| A | 2.70 | 2.45 | 2.45 | 2.35 | 2.15 |
| B | 2.65 | 2.40 | 2.40 | 2.30 | 2.15 |
| C | 2.60 | 2.35 | 2.35 | 2.25 | 2.15 |
| D | 2.55 | 2.30 | 2.30 | 2.20 | 2.10 |
| E | 2.50 | 2.25 | 2.25 | 2.15 | 2.05 |
| F | 2.45 | 2.20 | 2.20 | 2.10 | 2.00 |
| G | 2.40 | 2.15 | 2.15 | 2.05 | 1.95 |
| H | 2.35 | 2.10 | 2.10 | 2.00 | 1.90 |

BY MR. FRAWLEY: That is the only one of those that you have?

MR. McELVANY: No sir. In Appendix A I set out the complete schedule for all of the districts in Price Area No. 1 except District No. 5. (Continues brief):

All mines in District No. 1 producing the highest grade coal from that territory were classified as A and carried the prices set forth in the schedule for class A mines. All of the mines in that district and in all other districts were assigned a letter classification and took the price for that class under the various sizes of coal designated. In District No. 1, all coal was covered by five size groups; the description of the coal falling into each of these size groups being as follows:

| <u>Size Group</u> <u>Numbers</u> | <u>General Description</u> |
|-------------------------------------|---|
| 1 | All lump coal |
| 2 | All double screened coal having a top size over 2 inches |
| 3 | All double screened coal with top size not exceeding 2 inches |
| 4 | Run of Mine, modified Run of Mine and minus resultant with top size over 2 inches |
| 5 | All minus resultant with top size over 3/4 inch and not exceeding 2 inches |
| 6 | All minus resultant with top size not exceeding 3/4 inch. |

A similar method of classification and size grouping was set up for each district although some of the districts had more classifications due to greater variation in coal qualities and acceptability and some districts provided additional size groupings to take care of their individual producing and marketing conditions.

There is annexed hereto, as Appendix "A" schedule of minimum prices for each district (except No. 5) in Price Area No. 1, effective October 1, 1942. These were the last minimum prices prescribed by the Bituminous Coal Division and reflect all changes in cost of production between the establishment of minimum prices (October 1, 1940) and October 1, 1942.

For the purpose of pricing, provision was made for dividing the United States producing areas into what were termed "Price Areas" which were in turn divided into District Areas.

From the standpoint of production and distribution, the two most important Price Areas established by the Congress were Price Areas Nos. 1 and 2. These Price Areas were made up of the following producing district areas:

PRICE AREA NO. 1

| | | |
|----------------|-------|-----------------------------------|
| District No. 1 | ..... | Central Pennsylvania |
| District No. 2 | ..... | Western Pennsylvania |
| District No. 3 | ..... | Northorn West Virginia (Fairmont) |
| District No. 4 | ..... | Ohio |
| District No. 5 | ..... | Michigan |
| District No. 6 | ..... | West Virginia Pan Handle |
| District No. 7 | ..... | Southern low volatile (1) |
| District No. 8 | ..... | Southern high volatile (2) |

(1) This district embraces the low volatile coal producing areas in Southern West Virginia and Virginia.

(2) This district embraces the high volatile coal producing areas in Southern West Virginia, Virginia, Eastern Kentucky and Tennessee.

PRICE AREA NO. 2

| | | |
|-----------------|-------|------------------|
| District No. 9 | ..... | Western Kentucky |
| District No. 10 | ..... | Illinois |
| District No. 11 | ..... | Indiana |
| District No. 12 | ..... | Iowa |

It should be noted at this point that the Bituminous Coal Act is not now in effect, having expired by limitation on August 24, 1943.

Prior to 1943 (in which year, due to abnormal demands, approximately 2,000,000 tons of Price Area No. 2 coal moved into Canada) the greater proportion, in fact 95% or more, of the coal exported from the United States into Canada moved from Price Area No. 1. With the return of normal distribution in the post-war years, the same pattern of exports to Canada so far as originating territory is concerned, will doubtless obtain. Also, if an examination is made of the destination of United States coal exported to Canada, it will be found that almost all of such coal is ultimately consumed in the Provinces of Quebec and Ontario, including the head of the Lakes. For example, in the year 1939 (a year when there was as yet felt no effect of World War 2) out of a total of 9,836,110 tons of United States bituminous exported to Canada, 9,647,664 tons were consumed in the Provinces of Quebec and Ontario. Accordingly the remainder of this presentation will have to do with exports from Price Area No. 1 in the United States to the Provinces of Quebec and Ontario in Canada. As figures with respect to the price areas have only been compiled since the passage of the "Bituminous Coal Act of 1937," it will not be possible to show factual data for any year prior to 1936.

Table No. VI sets forth the total production of Price Area No. 1 for the years 1936-1944 inclusive and the amount and percentage of such coal exported to Quebec and Ontario.

TABLE VI

| <u>Year</u> | <u>Price Area No. 1 Production</u> | <u>Exports to (1) Quebec and Ontario</u> | <u>Percent of Production</u> |
|-------------|--|--|----------------------------------|
| 1936 | 309,268,000 | 9,917,333 | 3.21 |
| 1937 | 311,488,000 | 12,148,410 | 3.90 |
| 1938 | 238,454,000 | 9,349,049 | 4.34 |
| 1939 | 275,163,000 | 9,647,664 | 3.51 |
| 1940 | 328,341,000 | 13,239,546 | 4.03 |
| 1941 | 368,208,000 | 17,600,670 | 4.78 |
| 1942 | 409,535,000 | 20,480,759 | 5.03 |
| 1943 | 407,023,000 | 23,925,897 (2) | 5.88 |
| 1944 | 424,208,000 | 24,143,372 (2) | 5.69 |

(1) This represents the tonnages retained for consumption in the Provinces of Quebec and Ontario.

(2) This figure arrived at by assigning to the Provinces of Quebec and Ontario the same percentage of United States total exports to Canada as obtained in 1942.

Generally speaking the highest quality coal produced in the United States is produced in Price Area No. 1. Substantially all of the by-product coal used for coke making to operate the United States steel industry is produced in Price Area No. 1. All of the lake coal transshipped through Lake Erie and Lake Ontario; all of the tidewater coal transshipped through the Atlantic sea ports; all of the coal used to fuel the highly industrialized Middle Atlantic and New England States wherein is largely concentrated the preponderance of United States manufacturing industries, is produced in Price Area 1. While as against Price Area No. 1 production during the war years, the exports to Quebec and Ontario may appear small, since the winter of 1942-43, all of the additional coal required was obtained by diversion from United States consumers. This indicates the length to which the United States bituminous industry has gone and will go to take care of all markets which it serves.

The governmental authorities of the United States (Solid Fuels Administration for War) recognize the obligation of the producers in Price Area No. 1 to supply their normal markets in Canada and have set up certain regulatory controls which assures Canada of getting its coal.

Bituminous coal producers in the States are required to give a first preference on shipments to all receivers of by-product or special purpose coals. To the extent that such types of coal are required in Canada, for example, at plants like Steel Company of Canada, Ltd., Hamilton By-Product Coke Ovens, Ltd., Montreal Coke & Mfg. Company and Algoma Steel Corporation, Ltd., those companies receive a first preference the same as similar users in the States and coal is shipped to them before shipments are made to any other class of customers.

MR. McELVANY: I would like to add there also that due to the fact that in the application of the first preference we were required to give a first preference to special purpose and by-product coals moving by lakes, that all of those Canadian

consumers of by-product coals receiving their coal by lake received a first preference in respect of such coal even before the United States consumers of the same class of coal.

BY MR. FRAWLEY: Well, some of our industries would receive it by all-rail through the Niagara Frontier?

MR. McELVANY: There is very little coal which moves to any of those plants by all-railroad. In the winter time, if all coal has not come in Steel Company of Canada or Hamilton By-Products may bring in a small amount of coal by all-railroad, but where substantially all that coal is produced from Districts 7 and 8, and where it is necessary to get that coal in during the lake season in order to save the high rail transportation costs, substantially all that coal will move in during the summer time, and of course Steel Company of Canada takes as much in during the summer time by the lake route as it can in order to secure the transportation advantage which inures due to movement over that route. (Continues brief):

The second preference under Sold Fuels Administration regulations are retail dealers and to the extent that rail shipments are made to such class of customers in Canada, they receive a preference on such coal equal with retail dealers in the States. The third preference is consumers receiving coal by the lake cargo routes.

MR. McELVANY: I might explain that is other than by-product and special purpose coals; that is general use coal. (Continues brief):

Here the Canadian consumer has a decided advantage for the reason that by far the bulk of the bituminous coal imported into Canada from the States moves via the lake cargo routes. We are prohibited from shipping coal to other accounts until we have made adequate provision for fulfilling lake commitments in full. As a result, Canadian consumers receiving the bulk of their coal by the lake route are assured of their coal supply prior to United States consumers who receive their coal supply

by all-rail or tidewater routes, except those taking the first two preferences, that is, by-product coal and retail dealer coal.

The United States coal producers in Price Area No. 1 who ship all this coal for lake transshipment recognize their responsibility to their Canadian customers taking their coal via the lake routes and no objection has been raised by a single United States producer to this preference requirement for lake coal shipments.

Table VII, following, sets forth statistics of movement of lake cargo coal through the Lake Erie ports for a period of years and indicates both the actual and relative increase in tonnage transshipped to Canadian destinations.

TABLE NO. VII

Distribution of Coal Shipped to United States Lake Erie Ports and Forwarded Therefrom as Cargo

| Year | United States destinations | | Canadian destinations | |
|------|----------------------------|------------|-----------------------|------------|
| | Tons | % of total | Tons | % of total |
| 1937 | 35,123,000 | 80.6 | 8,479,000 | 19.4 |
| 1938 | 27,656,000 | 80.9 | 6,510,000 | 19.1 |
| 1939 | 33,188,000 | 83.3 | 6,672,000 | 16.7 |
| 1940 | 37,804,000 | 81.2 | 8,778,000 | 18.8 |
| 1941 | 38,823,000 | 78.1 | 10,886,000 | 21.9 |
| 1942 | 36,267,000 | 75.9 | 11,544,000 | 24.1 |
| 1943 | 34,146,146 | 74.1 | 11,939,000 | 25.9 |

BY MR. FRAWLEY: Before you leave the matter of preferences, is railway coal put into any particular preference class?

MR. McELVANY: It is not, sir. It would come in No. 4. After the first three preferences are taken care of, then all industrial and railroad accounts follow in the same category. Of course to the extent that Canadian railways receive their coal by the lake cargo routes they then receive preference No. 3 on receipt of such coal. (Continues brief):

The other principal source of supply of bituminous coal for Quebec and Ontario has been the Maritime Provinces.

Table No. VIII, following, sets forth tonnages of United States bituminous coal and Maritime coals retained for consumption in the Province of Quebec for a series of years:

TABLE NO. VIII

Net Tons

| <u>Year</u> | <u>Received from Maritime Provinces</u> | <u>Received from United States</u> |
|-------------|---|--|
| 1928 | 2,318,819 | 1,303,607 |
| 1929 | 2,231,922 | 1,242,180 |
| 1930 | 1,724,390 | 1,111,811 |
| 1931 | 1,571,304 | 858,015 |
| 1932 | 1,309,162 | 470,781 |
| 1933 | 1,485,274 | 433,706 |
| 1934 | 2,127,743 | 659,566 |
| 1935 | 1,735,704 | 735,593 |
| 1936 | 2,228,781 | 873,225 |
| 1937 | 2,270,100 | 1,359,694 |
| 1938 | 2,350,761 | 831,781 |
| 1939 | 2,304,856 | 1,297,488 |
| 1940 | 2,476,195 | 1,792,673 |
| 1941 | 1,961,903 | 4,104,262 |
| 1942 | 1,641,527 | 5,252,843 |

While authentic figures have not been available to us as to the movement of coal from the Maritime Provinces since 1942, it is our information that the movement of such coal into Quebec has greatly decreased since that time.

BY COMMISSIONER MORRISON: Pardon me, at that point.

Where are those tables taken from?

MR. McELVANY: I see that I neglected to put that in.

Those are all taken from the statistics of the Dominion Bureau of Statistics. (Continues brief):

Table IX sets forth similar information with respect to coal retained for consumption in the Province of Ontario:

TABLE IX
Net Tons

| <u>Year</u> | <u>Received from Maritime Provinces</u> | <u>Received from United States</u> |
|-------------|---|--|
| 1928 | 63,427 | 10,643,002 |
| 1929 | 140,619 | 11,332,168 |
| 1930 | 168,672 | 10,492,151 |
| 1931 | 174,931 | 8,619,083 |
| 1932 | 280,866 | 6,913,221 |
| 1933 | 521,083 | 7,067,289 |
| 1934 | 778,283 | 8,509,228 |
| 1935 | 926,424 | 8,325,718 |
| 1936 | 1,046,497 | 9,044,108 |
| 1937 | 1,215,090 | 10,788,716 |
| 1938 | 771,248 | 8,517,268 |
| 1939 | 1,294,038 | 8,350,176 |
| 1940 | 954,761 | 11,446,813 |
| 1941 | 177,191 | 13,496,408 |
| 1942 | 27,269 | 15,227,916 |

The report for 1939 of the Dominion Bureau of Statistics discloses that for the five (5) year period 1935-1939, the average yearly imports of United States bituminous coal into Quebec and Ontario were as follows:

| | |
|---------------|--------------------|
| Quebec | 887,381 net tons |
| Ontario | 9,311,281 net tons |

12.00 NOON - COMMISSION ADJOURNED UNTIL 2.00 P.M.

AFTERNOON SESSION

The Commission resumed at 2.00 P.M.

MR. A. B. McELVANY continues presentation of Exhibit No. 214:

If that yearly average import had been maintained, Quebec would have been short over 4,000,000 tons and Ontario almost 6,000,000 tons of meeting their 1942 bituminous requirements. Canadian homes would have been cold and Canadian industry, so vital to the war effort, would have been idle, if the United States bituminous industry had not assumed its rightful burden of supplying its normal Canadian market.

The last complete study of United States coal resources was made in 1936 by the United States Bureau of Mines. That study indicated that as of the end of the year 1934, there were unmined 3,182,000,000,000 net tons of recoverable bituminous coal. Production since that time is just a drop in the bucket as against such immense reserves. With such a reserve of coal in the United States, economically and efficiently mined with one of the most efficient and highly integrated transportation systems in the world serving the United States coal producing areas ready, willing and able to handle all of the coal which is offered for transportation to destinations within the United States or Canada, and with the United States bituminous industry ready, willing and able in the future, as in the past, to serve its normal markets, Canada can feel secure that its requirements for bituminous coal always will be adequately met.

BY THE CHAIRMAN: In your submission of your reserves

did you stick pretty well to the definition that has been given of actual coal reserves? You know, sometimes they divide coal reserves into possible, probable and actual.

MR. McELVANY: This was possible mineable reserves.

(Continues brief):

Closely intertwined with the ability to produce sufficient coal by economic methods to meet all of the demands of our natural markets in the United States and Canada is the co-related problem of transportation of the coal from the producing areas to the consuming centers. Here the Canadian consumer who looks to the United States for his source of supply is particularly fortunate. Not only do the States have unlimited resources of unmined bituminous coal which can be efficiently and economically mined and so prepared as to afford the greatest fuel efficiency in its burning, but also the individual districts which comprise Price Area No. 1 are served by the most highly integrated railroad system to be found anywhere in the world. All of the principal origin districts are served by one or more of the main trunk line systems in the Eastern part of the United States, and in addition there are many connecting or so-called lateral lines feeding into these main trunk lines. Even though one or more of these originating lines in the coal field or their connections might be temporarily disabled due to washouts, embargoes, car shortages, etc., there are always one or more railroad routes open and available to carry the coal traffic. Given below are the railroad systems serving the originating producing districts comprised in Price Area No. 1 (except District No. 5):

District No. 1

B & O Railroad
Pennsylvania
New York Central
Pittsburgh & Shawmut
Pittsburgh, Shawmut & Northern
Erie
Cambria & Indiana
L. E. F. & C.
Western Maryland

District No. 2

B & O Railroad
Bessemer & Lake Erie
Pennsylvania
P. & L. E.
Montour
Pittsburgh & West Va.

District No. 3

B & O Railroad
Monongahela
Western Maryland

District No. 4

B & O Railroad
Pennsylvania
New York Central
Wheeling & Lake Erie
C. & O.

District No. 6

B & O Railroad
Pennsylvania

District No. 7

C. & O.
Interstate
N. & W.
Virginian

District No. 8

C. & O.
C. C. & O.
K. C. & N. W. Railway
K. & M. Railway (N. Y. C.)
L. & N.
N. & W.

The Baltimore & Ohio, Pennsylvania, New York Central, and Erie all reach Canadian border points via their own rails. However they do not confine their open available routes to their own rails but by joint routes and through rates in connection with such roads as the Delaware & Hudson, Delaware, Lackawanna & Western, Lehigh Valley, Detroit & Toledo Shore Line, Michigan Central, Pere Marquette Railroad, etc. there is enjoyed a multiplicity of routes all of which are open and available for the traffic movement. With the number of roads serving the producing area and the multiplicity of routes open to all of these originating roads to move their traffic, it is inconceivable to believe that there ever could arise an occasion when sufficient routes would not be open and available to handle all of the coal requirements of the provinces of Quebec and Ontario.

Coal moving all rail enters Canada through what are known as the St. Lawrence gateways, the Niagara Frontier and the Detroit-Port Huron gateways. The railroads hereinbefore listed either directly or through their connections reach all of the important gateways through which coal moves into Canada. The more important of these gateways are listed below.

Rouses Point, N.Y.
Massena, N.Y.
Cecil Junction, Que.
Huntingdon, Que.
Ogdensburg, N.Y. (Car Ferry)
Delson, Que.
Adirondack Jet., Que.
Mattawankeag, Me.
Somerset Jet., Me.

Vanocboro, Me.
Wells River, Vt.
Outremont, Que.
Genesee Docks, N.Y. (Car Ferry)
Black Rock, N.Y.
Suspension Bridge, N.Y.
Detroit, Mich.
Port Huron, Mich.

With this wide geographical distribution of available gateways to Canada for all-rail coal there is little reason why at any time, there would be any transportation restriction which would interfere with the movement.

BY THE CHAIRMAN: You need not answer this question unless you feel like it. Have you ever given any attention to the new waterways development that is under consideration now by the Congress of the United States?

MR. McELVANY: Yes, I have thought a lot about it.

BY THE CHAIRMAN: That will enable your coal companies down in that area there to get cheaper transportation to this country, will it?

MR. McELVANY: Well now, following the discussion of the rail routes I give attention quite extensively to the movement of coal into Canada by water routes.

BY COMMISSIONER McLAURIN: But as far as the St. Lawrence Waterway is concerned, it is no secret that coal companies operating in District No. 1 take an active interest in opposing it?

MR. McELVANY: Well, they have never actively supported it.

BY COMMISSIONER McLAURIN: You say the coal companies who appeared before the House of Representatives and Senate of the United States would want to have their case put on that basis, that they had never supported it?

MR. McELVANY: Well, I think that the record that the coal industry has made at all the hearings would indicate that there has never been any active support of the proposed waterways by the coal industry.

BY COMMISSIONER MORRISON: A certain section of the coal industry has vigorously opposed it?

MR. McELVANY: That is correct. In fact the National Coal Association has appeared, representing all of the bituminous operators, at all of the hearings, vigorously opposing it.

BY COMMISSIONER MORRISON: I happen to know of another association, colliers association, which has done likewise.

MR. McELVANY continues brief:

The Canadian railroads in purchasing a portion of their fuel supply in the States in some instances send their own open top equipment to the mines for coal loading but in the great majority of cases coal moving via the all-rail routes into Canada is handled in United States equipment and in normal times the car supply has always been adequate to take care of all the coal requirements in the States as well as Canada. The United States railroads have performed a notable feat during these war years in handling the tremendous volume of business which has been offered for movement and stand ready and able to continue this high standard of service and to accord to the Canadian coal movement the same economies and efficiencies which they have demonstrated in the handling of all of our domestic traffic.

Both in normal times and in the war period by far the preponderance of the tonnage exported from the United States into Canada moves by what is known as the lake cargo route. By that is meant coal is transported from the producing districts in the States to a United States port located on the south bank of Lake Erie or Lake Ontario. There the contents of the car is emptied into the hold of a vessel and transported to its ultimate Canadian destination by water.

This lake cargo movement constitutes a most efficient and economic method for the transportation of coal. Lake vessels ranging in capacity from 1000 tons to over 10,000 tons serve these ports on Lake Erie and Lake Ontario so that the needs of any community, irrespective of size, can be served by this route.

Coal dumping facilities are maintained at Oswego, Sodus Point and Charlotte Docks, New York on Lake Ontario and rates and routes to these docks apply from mines in Districts Nos. 1, 2, 3, and 6. These docks with their convenient location are well adapted to the smaller type of boat commonly

referred to as canalers which are employed for the transportation of freight on the St. Lawrence River. These boats are of such a length and draft that they are able to be accommodated in the locks of the Lachine Canal and therefore can serve the territory both east and west of Montreal. In order to provide a through movement of paper, pulp and wood produced along the river in the territory east of Montreal, this smaller type boat must be used in order that these products may be floated to Great Lakes destinations without the need for transfer of lading. Coal loaded into these boats at Oswego, Sodus Point, or Charlotte Docks provides a desirable return load and thus insures the economy that is always obtained when vessel capacity is utilized for a load in both directions.

On Lake Erie, coal unloading facilities are located at Buffalo, New York, Erie, Pennsylvania, and Conneaut, Ashtabula, Fairport Harbor, Cleveland, Huron, Lorain, Sandusky, and Toledo Ohio. The ports of Toledo and Sandusky are available via a multiplicity of routes to all of the coals produced in Districts Nos. 7 and 8. All of the coal produced in Districts Nos. 1, 2, 3, 4, and 6 can reach via available routes one or more of the lower Lake Erie ports. The capacity of the dumping facilities is adequate to insure Canada of a continuous supply of coal as witnessed by the fact that during the lake season of 1944, over 50,000,000 tons of coal were transshipped through the Lake Erie facilities.

The opening of the Welland Canal in 1932 (on which the Dominion of Canada spent millions of dollars) has further enhanced the economies of the lake cargo movement as it has had the substantial effect of making Lake Erie and Lake Ontario one lake and it is now possible to move the large bulk freighters and self-unloaders from Lake Erie ports to all destinations on Lake Ontario where there is a sufficient depth of water in the destination harbor to accommodate them.

The same lake cargo vessels which transport this coal from the lower Lake Erie and Lake Ontario ports are also used

to bring back iron ore, grain and limestone from the head of the lakes. This again provides for economic use of transportation facilities and it has been possible for the vessel owners to maintain a lower level of rates for coal transportation due to this return loading of ore, grain and limestone. As by far the bulk of the lake cargo coal moving to Canada is transported in vessels of Canadian registry, not only does the Canadian consumer receive the benefit of the economics of the transportation but Canadian capital invested in lake vessel craft secures a substantial return on its investment.

The same cars and motive power which transport lake cargo coal from the mines in Price Area 1 to the United States lower lake ports are also used in the movement of the limestone and ore away from the lake front to the consuming areas, i.e., the areas of steel production which in many instances are coterminous with the coal producing areas. In fact, due to the preponderant tonnage movement of the down-bound limestone and iron ore, coal in many instances is providing a return load for the motive power and equipment which otherwise would be returning light.

The fact that the railroad end of the lake cargo movement is in the nature of a portion of a through movement has resulted in the Interstate Commerce Commission treating the lake cargo rates "in the nature of proportional rates." (126 I.C.C. 309)

All of the lake cargo rates from the producing districts in Price Area 1 to the lower Lake Erie ports in the United States have either been specifically prescribed or approved by the Interstate Commerce Commission. The presently effective rates and the distances for which they apply are set out below:

TABLE NO. X

Rates and Distances from Producing Districts to Lower
Lake Erie Ports for Transshipment as Cargo

| FROM Producing Districts | Freight Rate Group | TO | Rate per net ton | Average Distance (Miles) | Earnings per net ton miles (Mills) |
|--------------------------------|-----------------------|-----------------|------------------------|--------------------------------|---|
| 1 | Reynoldsville | Buffalo | \$1.56 | 200 | 7.8 |
| x2 | Pittsburgh | Lake Erie Ports | 1.56 | 178 | 8.8 |
| x3 | Fairmont | Lake Erie Ports | 1.76 | 261 | 6.7 |
| x4 | Ohio | Lake Erie Ports | 1.53 | 167 | 9.2 |
| 6 | Pan Handle | Lake Erie Ports | 1.56 | 178 | 8.8 |
| x7 | New River | Toledo-Sandusky | 2.06 | 427 | 4.8 |
| x7 | Pocahontas | Toledo-Sandusky | 2.06 | 433 | 4.8 |
| x8 | Kentucky | Toledo-Sandusky | 1.91 | 305 | 6.3 |
| x8 | Kenova | Toledo-Sandusky | 1.91 | 322 | 5.9 |
| x8 | Thacker | Toledo-Sandusky | 1.91 | 348 | 5.5 |
| x8 | Kanawha | Toledo-Sandusky | 1.91 | 363 | 5.3 |

x Distances as determined by Interstate Commerce Commission in Lake Cargo Coal Rates (126 I.C.C. 309 at p. 326)

To all of the above rates, 9¢ per ton should be added to cover cost of dumping, as provided in freight tariffs lawfully on file with the Interstate Commerce Commission.

No lake cargo rates apply from District 5--Michigan.

It will be noted that the names shown under the heading "Freight Rate Group" are not the same as those set opposite the District number in the first table. The names of Freight Rate Groups shown in Table X are used by the Interstate Commerce Commission in designating Freight Rate Origin Groups and these Freight Rate Origin Group names were in effect for many years prior to the enactment of the Bituminous Coal Act of 1937. However, it should be pointed out that the freight rate origin groups used in Table X are the ones from which by far the greater portion of the lake cargo coal originates in the various producing districts.

It must be borne in mind in observing the earnings per ton mile, that in addition to providing a return load for the iron ore and limestone, these rates of themselves are those on which millions of tons of traffic move annually. The movement on these rates during the lake season of 1943 was as shown below in Table No. XI.

TABLE NO. XI

Movement of Lake Cargo Coal to Lake Erie Ports, Season
1943, from Districts in Price Area No. 1

| From | Tons |
|----------------|-------------------|
| District No. 1 | 866,060 |
| 2 | 7,124,736 |
| 3 | 2,251,400 |
| 4 | 4,198,149 |
| 6 | 396,416 |
| 7 | 8,710,879 |
| 8 | <u>22,511,694</u> |

Total 46,059,334

Authority: Ore & Coal Exchange

From the preceding two tables, it will be observed that over 80% of the tonnage moves at rates returning earnings to the railroads of over 5 mills per ton mile and still provides lake coal receivers with very economical transportation. Lake cargo coal generally moves in solid train load lots over over 100 cars each through from one assembly yard to one destination, without intermediate switching and with a minimum of switching at the destination lake ports. This latter is so because shipments are handled under consignment names instead of in individual consignor accounts and these consignment names are issued and policed by a carrier maintained organization, Ore & Coal Exchange at Cleveland, Ohio, which constantly endeavors to hold such consignments to a minimum.

BY MR. FRAWLEY: Is the rate a rate for a solid train load?

MR. McELVANY: It is not; it is a rate per ton, whether it is one car or one hundred cars.

BY MR. FRAWLEY: You are merely calling attention to the fact that it moves that way?

MR. McELVANY: That is the way in which it moves.

BY COMMISSIONER MORRISON: Are you suggesting that moving it in that way is more economical for the railroads?

MR. McELVANY: Yes sir.

BY MR. FRAWLEY: That is probably the chief reason why it moves that way?

MR. McELVANY: Yes. As you gentlemen probably know, there has been a series of litigation involving lake cargo rates which has extended back to 1912, and in the last adjustment of the lake cargo rates in 1924 the rate from some of the northern districts was reduced 20 cents a ton. The reason advanced for reducing those rates below the level of the local rate was due to this factor of solid train loads moving from their origin to destination.

BY MR. FRAWLEY: Is that what you find in 126?

MR. McELVANY: You will find that decision in 126 I.C.C. 309. It is entitled Lake Cargo Coal Rates 1924. (Continues brief):

While the Ore and Coal Exchange is carrier maintained, the Manager of the Exchange is an accredited agent of the Interstate Commerce Commission and the Exchange and Commission cooperate to the end that there is no delay to or mis-use of transportation equipment, either rail or lake. All of this makes for efficient and economic transportation which is reflected in the transportation charges.

The foregoing applies to lake cargo coal movement to and transshipment at the lower Lake Erie ports. The same situation also applies to the movement to the lower Lake Ontario ports, though to a much lesser degree on account of the smaller tonnage involved. During the year 1943, a total tonnage of 3,934,135 tons was transshipped from Lake Ontario ports of which 3,587,493 or 91% was destined to Quebec and Ontario destinations.

Similar information as shown for Lake Erie ports in Table No. X is set out in Table No. XII for those districts which have transshipping rates to Lake Ontario ports.

TABLE NO. XII

Rates and Distances from Producing Districts to Lower
Lake Ontario Ports (Charlotte Docks, Sodus Point
and Oswego) for Transshipment as Cargo

| From PRODUCING DISTRICT | To | Rate per net ton | Av. dis- tance Miles | Earnings per net ton mile (Mills) |
|---|----|---------------------|----------------------------|--|
| Dist. No. 1 Central Pa. (Charlotte Dks) | | \$1.68 | 275 | 6.0 |
| Dist. No. 2 Western Pa. (Sodus Point) | | 1.90 | 368 | 5.2 |
| Dist. No. 3 Northern W. Va. (Oswego) | | 1.90 | 428 | 4.4 |
| xDist. No. 6 W. Va. Pan Handle | | 1.90 | 423 | 4.5 |

To all of the above rates, 9¢ per ton should be added to cover cost of dumping.

x Rates from District No. 6 apply to Charlotte Docks and Sodus Point, New York only.

By far, the great bulk of the tonnage handled through Lake Ontario ports moves through the ports of Charlotte Docks and Sodus Point, and of that tonnage the preponderant amount originates in District No. 1.

The next series of tables immediately following sets forth the boating rates applicable from the various lower Lake Erie and Lake Ontario ports to selected destinations in Canada.

TABLE NO. XIII(a)

Rates for Transportation of Coal from Toledo or Sandusky,
Ohio in Lake Vessels

| Destination | Rates in cents per net ton (Can. funds) | |
|------------------|---|---------------|
| | Bulk Freighter | Self Unloader |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .30 |
| Windsor | | .30 |
| Erieau | .30 | |
| Port Maitland | | .44 |
| Port Burwell | | .40 |
| Port Stanley | | .40 |
| Port Colborne | | .48 |
| Thorold | | .62 |
| Hamilton | | .71 |
| Toronto | | .71 |
| Montreal | 1.30 | |
| Saguenay River | 1.65 | |

TABLE NO. XIII(b)

Rates for Transportation of Coal from Huron and Lorain,
Ohio in Lake Vessels

| <u>Destination</u> | Rates in cents per net ton (Canadian funds) | |
|--------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self-Unloader</u> |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .32 |
| Windsor | | .32 |
| Erieau | .30 | |
| Port Maitland | | .42 |
| Port Burwell | | .39 |
| Port Stanley | | .39 |
| Port Colborne | | .46 |
| Thorold | | .60 |
| Hamilton | | .67 |
| Toronto | | .67 |
| Montreal | 1.30 | |
| Saguenay River | 1.65 | |

TABLE NO. XIII(c)

Rates for Transportation of Coal from Cleveland, Ohio
in Lake Vessels

| <u>Destination</u> | Rates in cents per net ton (Canadian funds) | |
|--------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self Unloader</u> |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .38 |
| Windsor | | .38 |
| Erieau | .30 | |
| Port Maitland | | .32 |
| Port Burwell | | .28 |
| Port Stanley | | .28 |
| Port Colborne | | .35 |
| Thorold | | .51 |
| Hamilton | | .60 |
| Toronto | | .60 |
| Montreal | 1.15 | |
| Saguenay River | 1.50 | |

TABLE XIII(d)

Rates for Transportation of Coal from Fairport Harbor,
Ashtabula and Conneaut, Ohio in Lake Vessels

| <u>Destination</u> | Rates in cents per net ton (Can. funds) | |
|--------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self Unloader</u> |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .38 |
| Windsor | | .38 |
| Erieau | .30 | |
| Port Maitland | | .32 |
| Port Burwell | | .28 |
| Port Stanley | | .28 |
| Port Colborne | | .35 |
| Thorold | | .51 |
| Hamilton | | .60 |
| Toronto | | .60 |
| Montreal | 1.15 | |
| Saguenay | 1.15 | |

TABLE NO. XIII(e)

Rates for Transportation of Coal from Erie, Pa., in
Lake Vessels

| <u>Destination</u> | Rates in cents per net ton (Can. funds) | |
|--------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self Unloader</u> |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .38 |
| Windsor | | .38 |
| Erieau | .30 | |
| Port Maitland | | .29 |
| Port Burwell | | .31 |
| Port Stanley | | .31 |
| Port Colborne | | .32 |
| Thorold | | .49 |
| Hamilton | | .58 |
| Toronto | | .58 |
| Montreal | 1.15 | |
| Sagueany | 1.50 | |

TABLE NO. XIII(f)

Rates for Transportation of Coal from Buffalo, New York
in Lake Vessels

| <u>Destination</u> | Rates in cents per net ton (Can. funds) | |
|--------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self Unloader</u> |
| Fort William | .40 | |
| Sault Ste. Marie | .35 | |
| Georgian Bay | .55 | |
| Amherstburg | | .38 |
| Windsor | | .38 |
| Erieau | .30 | |
| Port Maitland | | .31 |
| Port Burwell | | .42 |
| Port Stanley | | .42 |
| Port Colborne | | .30 |
| Thorold | | .43 |
| Hamilton | | .50 |
| Toronto | | .50 |
| Montreal | 1.15 | |
| Saguenay | 1.50 | |

TABLE NO. XIII(g)

Rates for Transportation of Coal from Charlotte Docks,
Sodus Point and Oswego, New York

| <u>Destination</u> | Rates in cents per net ton (Can. funds) | |
|--------------------------|---|----------------------|
| | <u>Bulk Freighter</u> | <u>Self Unloader</u> |
| Toronto | .50 | .40 |
| Oshawa | | .37 |
| Port Hope | .50 | .80 |
| Cobourg | .50 | .80 |
| Trenton | | .90 |
| Belleville | | .90 |
| Kingston (deep draft) | | .45 |
| Kingston (shallow draft) | | .53 |
| Prescott (deep draft) | | .50 |
| Cardinal (deep draft) | | .55 |
| Cornwall (deep draft) | .80 | .85 |
| Montreal (deep draft) | 1.00 | 1.20 |
| Saguenay River | 1.35 | |

BY MR. FRAWLEY: I notice it is either one or the other, either bulk freighter or self unloader?

MR. McELVANEY: That's right. Take to a city like Toronto, while some bulk freighters do arrive in there the preponderant weight comes in in unloading vessels.

Q You mean from the same point it will cost 50 cents to take it to Toronto by bulk freighter against 40 cents by self unloader?

A That is correct.

BY COMMISSIONER McLAURIN: Bulk freighters just can't compete with the self unloaders.

A Well, it depends on where it is going. Now to a place like the Soo, where they have their own unloading facilities on the dock, there is no advantage in using the self unloader, because your self unloader rate will always be higher on account of its carrying its own unloading equipment.

Q What about Toronto?

A There are no bridges at Toronto for the unloading of bulk freighters. Now they have been brought in there and some of the dock operators have taken their own clamshells down and unloaded them bucketful by bucketful, but that is a very slow, tedious operation.

BY MR. FRAWLEY: Just look at Toronto versus Montreal. Just why is it the self unloader doesn't go into Montreal?

A In the first place there are very few that are small enough to go through the Lachine Canal, and in the second place they were bringing coal by water into Montreal long before they were bringing it into Toronto by water, and there had not been the development of the self unloader when coal was moved into Montreal by water, therefore you will find that all of your unloading docks at Montreal are equipped with bridges whereby they are equipped to unload the bulk freighters.

Q Other things being equal, it is perfectly true that Toronto docks have a great advantage over Montreal?

A For the sale of coal at Toronto.

BY COMMISSIONER McLAURIN: Except the very considerable distance?

A Yes, but if you will look . . . of course if you get down to Table XIII(g) for the movement of the bulk freighter from Lake Ontario points to Montreal you will see that the bulk freighter rate to Montreal is \$1.00.

BY MR. FRAWLEY: By the way, are these 1944 rates?

A These are the current rates and are the rates on which coal is shipped this year.

BY COMMISSIONER McLAURIN: Now would you mind looking at XIII(b).

It would not be any further from Lorain to Montreal than it is from Lorain to Fort William, would it?

A That is perhaps correct, and there is where the advantage of the return loading of the ore comes in, because the man at Fort William on his up-bound rate on coal gets the benefit of the fact that that boat may go down loaded with grain or ore. He therefore gets the economics that are inherent in utilization of cargo space in both directions.

Q But don't they get pulp and paper on return trips?

A Of course you are talking now going to the western end. Your pulp and paper moving down ---

Q Have to go down the river entry for a distance?

A Yes.

BY MR. FRAWLEY: Well, if a bulk freighter was going to Saguenay River with coal wouldn't he come back with pulp?

A He might.

BY COMMISSIONER McLAURIN: But the bulk of the coal is consumed in Montreal.

BY MR. FRAWLEY: Certainly taking American coal up the Saguenay River would be pretty humiliating to some people that mine coal down that way, but I suppose it goes down there?

A In times of stress, yes, U.S. coal does go down the Saguenay River. (Continues brief):

By a combination of the figures in Tables Nos. X or XII and those in Table No. XIII, it is possible to calculate the transportation charge from any of the districts in price area No. 1 to any of the more important destinations in Canada receiving lake coal.

Taking Toronto, Ontario, as an example, Table No. XIV sets out in detail the most economical transportation route from each producing district in Price Area No. 1.

TABLE NO. XIV

Statement Setting Forth Cheapest Transportation Route
Available From Each District in Price Area No. 1
When Shipping Lake Coal to Toronto, Ontario

| From | District | Rate to Lake Front | Dumping Charge | Boat Rate | Total |
|------|------------------------|-----------------------|-------------------|--------------|-------|
| 1 | Central Pennsylvania | (a) 1.56 | .09 | .50 | 2.15 |
| 2 | Western Pennsylvania | (b) 1.56 | .09 | .58 | 2.23 |
| 3 | Northern West Va. | (c) 1.90 | .09 | .40 | 2.39 |
| 4 | Ohio | (d) 1.53 | .09 | .58 | 2.20 |
| 6 | West Va. Pan Handle | (e) 1.56 | .09 | .60 | 2.25 |
| 7 | Southern-low volatile | (f) 2.06 | .09 | .71 | 2.86 |
| 8 | Southern-high volatile | (f) 1.91 | .09 | .71 | 2.71 |

(a)--Via Buffalo, New York
(b)--Via Erie, Pennsylvania
(c)--Via Charlotte Docks
(d)--Via Erie, Pennsylvania
(e)--Via Fairport Harbor, Ohio
(f)--Via Toledo or Sandusky, Ohio

As previously adverted to in this presentation, bituminous coal in the United States is mined efficiently and economically. During the year 1943 (the last year for which figures have been released by the United States Bureau of Mines) the average production per man per day was 5.38 net tons. It should be pointed out that this average is arrived at by including all men, inside and outside, in the computation.

BY COMMISSIONER McLAURIN: Does it include stripping?

MR. McELVANY: Yes, it includes all coal mines. (Continues brief):

We believe it will be accepted as a fact that coal produced from mines of large daily productive capacity efficiently managed and modernly equipped can be produced at a lower cost than from small mines, inefficiently managed, without modern equipment.

As indicative of the extent to which the United States bituminous industry has gone in the development of the large scale efficient productive units, the following salient statistics are quoted from the Minerals Yearbook of the United States Department of the Interior with respect to production in the year 1942, from Districts embraced in Price Area No. 1.

TABLE NO. XV

Price Area No. 1

| | |
|--|------------------|
| Total number of mines | 4,327 |
| Total Production | 410,506,063 tons |
| Average production per mine | 94,871 tons |
| Mines in Class 1-A (More than 500,000 tons production) | |
| Total number of mines | 212 |
| Total Production | 191,940,461 tons |
| Average production per mine | 905,380 tons |
| Mines in Class 1-B (200,000 to 500,000 tons) | |
| Total number of mines | 373 |
| Total Production | 116,402,659 tons |
| Average production per mine | 312,071 tons |
| Classes 1-A and 1-B combined (All mines producing 200,000 tons or over) | |
| Total number of mines | 585 |
| Total production | 308,343,705 tons |
| Average production per mine | 527,083 tons |

Authority: United States Bureau of Mines

A study of the preceding table discloses that in Price Area No. 1, the territory from which Canada draws its coals, 73% of the tremendous production is produced from 14% of the mines and that the average annual productive capacity of these Class 1-A and 1-B mines is over half a million tons.

The development of mechanized mining has been another factor which has contributed very materially to the economic production of coal in the States. There has been an increasing utilization year by year of the most modern types of mechanical loading equipment in the bituminous mines in the United States. Table No. XVI sets forth for a period of years the number of units of mechanical equipment in use in underground bituminous mines.

TABLE NO. XVI

Units of Mechanical Loading Equipment in Use in Underground
Bituminous Mines in the United States, 1934-1942

| <u>Year</u> | <u>No. of Units</u> |
|-------------|---------------------|
| 1934 | 3672 |
| 1935 | 3682 |
| 1936 | 4107 |
| 1938 | 4786 |
| 1939 | 4970 |
| 1940 | 5452 |
| 1941 | 6296 |
| 1942 | 6978 |

(Figures for 1937 not available)

BY COMMISSIONER McLAURIN: What do you call a unit?

MR. McELVANY: Well, in the next table which follows there is an explanation of what these units are. (Continues brief);

As has been previously referred to, substantially all of the coal exported from the States to Canada comes from the mines located in Price Area No. 1. The next Table No. XVII sets forth in detail the various types of mechanical units which were in operation in mines in Price Area No. 1 during the year 1942.

This statement follows:

TABLE NO. XVII

Price Area No. 1

| | |
|-------------------------|-------------|
| Mobile loaders | 1321 |
| Scrapers | 10 |
| Conveyors (Mechanical) | 469 |
| Pit Car loaders | 225 |
| Conveyors (Hand loaded) | <u>2219</u> |
| Total | 4244 |

It will be observed by comparison of the preceding two tables that over 60% of all the mechanical units in use at mines in the States are located in Price Area No. 1. Canada, therefore, is securing its imported coal from the territory in which there is a preponderance of the larger size mines and of the mines mechanically equipped, thus assuring Canada of coal produced from the most economic units in the business.

The development of the large mining unit plus the increased use of mechanical equipment (plus the longer work day and six day work week) has enabled the bituminous producers in the States not only to maintain but to increase their production despite the terrific drain on manpower occasioned by the loss of miners to the armed forces and to other industries. The last year for which final statistics are available is the year 1943, and with the smallest number of men employed in the mines than for many years there was produced the greatest tonnage in the history of the industry. The next table shows for a series of years the number of men employed in bituminous coal mines in the United States and the average output per man per day for the same years:

TABLE NO. XVIII

Number of Men Employed in Bituminous Coal Mines in
the United States

| <u>Year</u> | <u>No. of Men</u> | <u>Average Output Per Man Per Day</u> |
|-------------|-------------------|---|
| 1938 | 441,333 | 4.89 |
| 1939 | 421,788 | 5.25 |
| 1940 | 439,075 | 5.19 |
| 1941 | 456,981 | 5.20 |
| 1942 | 461,991 | 5.12 |
| 1943 | 416,007 | 5.38 |

Authority: United States Bureau of Mines

With 45,000 fewer employees in the mines than there were in 1942, bituminous production increased ten million tons in 1943 and the output per man per day increased .26 tons. Figures as to number of men employed and average output per man per day are not as yet available for the year 1944, but it is a well known fact that the bituminous coal industry continued to lose men and in spite of that loss in 1944 there was produced the greatest tonnage in the history of the bituminous coal industry in the States, namely 620,000,000 tons. It is our considered opinion that the output per man per day for that year must be in excess of 5.5 tons. (Preliminary figures of the United States Bureau of Mines which have just been issued confirm this latter figure.)

In addition to providing coal mined as economically as possible, the United States producers have also constantly endeavored to improve the quality of the coal which they ship to market. This they have done by utilizing all means at their command to provide the highest quality of coal possible. Perhaps the most notable contribution to this effort has been the tremendous sums of money invested in the development and installation of mechanical cleaning equipment for the removal of impurities from the raw coal. This development has now reached a high stage of accomplishment in the States both through what are known as the wet method and the pneumatic method. It has been impossible to segregate available figures to show the increased use of mechanical cleaning methods in Price Area No. 1

but the next table indicates the growth of these processes for the country as a whole for the years 1938-1943 inclusive.

TABLE NO. XIX

Bituminous Coal Mechanically Cleaned in the United States

| Year | Tons |
|------|-------------|
| 1938 | 63,454,588 |
| 1939 | 79,429,426 |
| 1940 | 102,269,753 |
| 1941 | 117,539,522 |
| 1942 | 142,187,346 |
| 1943 | 145,575,849 |

The necessity for using material required in the erection of a cleaning plant in other more essential war industries during the last several years has slowed up somewhat the growth in mechanical cleaning methods but it is fair to assume with the close of the war and the availability of materials there will be a greatly accelerated growth of such units so that users of bituminous coal produced in the United States will secure the best quality coal that the expenditure of money and human ingenuity can produce.

We believe the improved qualities of coal now being produced as a result of bituminous coal research, plus the increased efficiency of coal utilization equipment now in common use contributed very materially to the war effort in that the higher quality coals now being delivered to consumers have enabled them to produce the energy required by the consumption of a much smaller tonnage than would have otherwise been necessary. While various types of coal consumers are prone to stress the improvement in fuel efficiencies and more or less take credit to themselves for all of these improvements, it is our judgment that much of the credit is due to the United States bituminous coal producer for marketing a product which has made such fuel efficiencies possible. The following table sets forth a few of the industries where outstanding savings have been made through increased fuel efficiency:

TABLE NO. XX

Fuel EfficiencyIndicators of Effect of Fuel Economy on Consumption of Coal
in the United States, per Unit of Performance

| | Pounds | Reduction from base period % |
|---|--------|------------------------------------|
| Steam Railroads: | | |
| Pounds per 1000 gross ton miles (freight service) | | |
| Average: | | |
| 1919-1920 | 170 | |
| 1943 | 114 | 32.9 |
| Pounds per passenger train car mile: | | |
| Average: | | |
| 1919-1920 | 18.5 | |
| 1943 | 15.0 | 18.9 |
| Electric public-utility power plants: | | |
| Pounds per kilowatt hour: | | |
| 1919 | 3.2 | |
| 1943 | 1.3 | 59.4 |
| Iron and Steel: | | |
| Pounds coking coal per net ton of pig (1): | | |
| 1918 | 3,194 | |
| 1943 | 2,620 | 18.0 |

(1) includes only savings through higher yields of merchantable coke per ton of coal charges and lower consumption of coke per ton of iron. Excludes economies through receiving of by-products.

Authority: Mineral Year Book
United States Bureau of Mines

BY THE CHAIRMAN: Is it about true to say that all the coal importations into Canada from the United States are prepared?

MR. McELVANY: No sir, by no means.

BY THE CHAIRMAN: Well, is it true to say that all the coal for domestic purposes is prepared?

MR. McELVANY: That is through mechanical cleaning equipment?

BY THE CHAIRMAN: Yes.

MR. McELVANY: No sir, it is not.

BY MR. FRAWLEY: Have you anything further in your brief on this subject that the Chairman has just raised?

MR. McELVANY: I have, if you will let me read the next two paragraphs.

BY THE CHAIRMAN: I am sorry.

MR. McELVANY continues brief:

If the railroads, the public utilities and the iron and steel industry were requiring as much coal per unit as they required in 1918 or 1919, the demands for our product would have been increased during these war years many millions of tons. The bituminous coal industry in the United States has made a vital contribution through the furnishing of coals of a quality which have made these fuel efficiencies possible.

It is true that in order to produce the tremendous tonnage required by the war effort, it has not been possible to maintain all of the production at the highest quality level. The necessity for employing superannuated labor, overloading of mechanical loading and cleaning equipment and loss of skilled supervisory employees have all contributed to this result. Also there has been a large increase in the production of strip coal, some of which, under stress of war demand, was subjected to the same difficulties in preparation as obtained at the deep mines. United States consumers received just as large a share of this type of coal as did the Canadian consumers.

With the return of normal times, bringing the younger men back to the mines, with the ability to secure proper supervision over production methods and with the diminution in strip coal mining that is bound to occur, all consumers of United States bituminous coal can look forward to again receiving the highest quality coals which it is possible to produce.

BY MR. FRAWLEY: What are the reasons that will lead to a diminution in strip coal mining?

MR. McELVANY: Well, there are I believe two reasons which will lead to that. In the first place, among the ordinary consumers, industrial consumers of coal there is a certain antipathy to the use of strip coal. It has been necessary during the war period to supplement the deep mine supply, but we believe that when the deep mine coal is again available, which can be properly mined and properly cleaned, that industry generally will not want to receive the strip mine

- coal. One other factor: it has been easy--comparatively easy--to get into the strip mining business. Most of your strip mining is done by equipment which is also suitable for road building. With the almost complete cessation of road building in the States during the war many of those owners of road-building equipment turned them over to strip mining. It is my judgment that when our road building program again begins that a lot of the equipment that is now being devoted to the strip mining method will return to their former employment of building roads.
- Q The first reason you assign puzzles me a little bit. Why would the consumer care whether it was strip mine or deep mine, except as to quality?
- A That is a very important question, and at many of the strip mines which were started under the stress of the war demand it was not possible to put in any preparation, sizing or cleaning equipment, and some of the strip coal which consumers have received has not been of as good quality as the ordinary deep mine coal.
- Q Are there not some coal properties which lend themselves to strip mining and could not very well be mined except by strip mining?
- A Well, undoubtedly there are territories in the States where strip mining is by far the most economic method, and where the folks have gone in and have erected tipplers and cleaning plants and given the strip coal just the same careful preparation that is given to deep mine coal.
- Q One instance may not be important, but the Pittsburgh Coal Company have some areas there in the country around Pittsburgh that cannot be mined otherwise?
- A That is true. As you get close to the outcrop and the overburden is not heavy enough to support deep mining there has been coal recovered during this war and made available for use by the strip mining method which I don't think would have been recoverable otherwise.

Q But you don't think there may be a tendency to develop that method of mining?

A Oh, I think there will be an attempt made wherever it is feasible to stay in that kind of business, but it is my opinion that it will not be nearly as great a percentage of our total production as has obtained during the war years.

Q The cost is of course less?

A That is true.

BY COMMISSIONER McLAURIN: Not much. Well, it depends on the area.

A It depends on the area.

Q Take Hanna, 25¢ a ton differential. They would be the last to admit that that coal is not just as good as deep mine coal.

A Oh, it is not claimed it is not. The Hanna Company has gone in and spent many hundreds of thousands of dollars to put themselves in a position to make their strip coal acceptable on the market.

Q Is there a diminution in the area that admits of stripping?

A Well, there is a diminution in the area that admits of economic strip mining. Now what has happened of course naturally is that in the desire to get coal they have gone in and taken the coal that is close to outcrops and with the lowest overburden. Take the Fairmont district as an example, where the coal lay close to the knoll of the hill and was available to strip mining there, has been pretty well worked out during the war years.

Q You think that the view that stripping will go down is pretty well conceded by both strippers and deep seam miners?

A I think so. I may say that all the companies that signed this brief--Consolidation, Hanna, Rochester and Pittsburgh, etc.--we are all stripping coal now and I know there is no thought in our mind that our strip coal production will bear anything like the relation to our total production that it has borne in the last couple of years.

From here on I go into a discussion of the maximum price

set-up under which we have operated in the United States since price control has been put in. (Continues brief):

On January 30, 1942 the Congress of the United States passed and the President approved legislation known as The Emergency Price Control Act under which was set up the Office of Price Administration with the authority and responsibility to establish maximum prices for any commodity. The accelerated coal demand following Pearl Harbor presented two problems: first, the establishing of maximum prices at a level which would encourage maximum coal production from all mines and, second, the prevention of inflationary prices. Accordingly on May 18, 1942 under a regulation termed Maximum Price Regulation No. 120 the Office of Price Administration established maximum prices f.o.b. mines for all mines producing coal in the United States. In order that there might be as little confusion as possible in putting these prices into effect the Office of Price Administration adopted the same classification letters and size grouping numerals as were then applicable in effective minimum price schedules. The Price Administrator in issuing this first schedule gave consideration to the prices of bituminous coal prevailing between October 1st and October 15th, 1941 and made adjustments for such relevant factors as he determined and deemed to be of general applicability.

Particular attention is directed to the fact that in the maintenance of maximum prices on coal throughout the last four years, the Office of Price Administration has maintained very strict control over profits, holding prices to a level which would equal on a district basis margins earned in the year 1942, on 15¢ per ton, whichever was the greatest.

The first maximum price schedule issued for District No. 1 which is cited simply for illustrative purposes, is as set forth in the following Table No. XXI.

TABLE NO. XXI

Maximum Prices for District No. 1--Prices per Net Ton
f.o.b. Mines, Effective May 18, 1942

| | SIZE GROUPS | | | | |
|---------|-------------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 |
| Class A | 3.35 | 3.20 | 3.20 | 2.90 | 2.75 |
| B | 3.30 | 3.20 | 2.95 | 2.85 | 2.75 |
| C | 3.20 | 3.15 | 2.90 | 2.75 | 2.75 |
| D | 3.10 | 2.90 | 2.80 | 2.70 | 2.70 |
| E | 3.05 | 2.80 | 2.80 | 2.60 | 2.60 |
| F | 2.85 | 2.80 | 2.80 | 2.50 | 2.50 |
| G | 2.80 | 2.80 | 2.60 | 2.50 | 2.50 |
| H | 2.80 | 2.80 | 2.55 | 2.30 | 2.30 |

No changes have been made in permissible maximum prices except to reflect increased costs of production to the mines brought about by governmental approved wage increases or changes in working conditions.

Table No. XXII following shows the increased maximum prices in effect on April 30, 1945 which were permitted to take care of increased production costs previously referred to.

TABLE NO. XXII

Maximum Prices for District No. 1 in Effect April 30, 1945
Prices per Net Ton f.o.b. Mines

| | SIZE GROUPS | | | | |
|---------|-------------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 |
| Class A | 3.85 | 3.70 | 3.60 | 3.45 | 3.30 |
| B | 3.80 | 3.70 | 3.50 | 3.40 | 3.30 |
| C | 3.70 | 3.65 | 3.45 | 3.30 | 3.30 |
| D | 3.60 | 3.40 | 3.35 | 3.25 | 3.25 |
| E | 3.55 | 3.35 | 3.35 | 3.15 | 3.15 |
| F | 3.35 | 3.35 | 3.35 | 3.05 | 3.05 |
| G | 3.30 | 3.30 | 3.15 | 3.05 | 3.05 |
| H | 3.30 | 3.30 | 3.10 | 2.85 | 2.85 |

On May 1, 1945, Director of Economic Stabilization, W. H. Davis approved a new wage contract dated April 11, 1945, made between bituminous coal producers and the United Mine Workers of America and he authorized the Office of Price Administration to grant price increases to cover increased costs occasioned thereby.

The Office of Price Administration had no jurisdiction over the resale price at which coal could be sold in Canada. Its control was limited to prices effective in the United States but it afforded protection to the Canadian consumer to the fullest extent possible by providing in paragraph (2) of Section

1340.210 of Maximum Price Regulation No. 120, in part, as follows:

"The maximum prices established herein apply to all sales by a producer or a distributor at, or for delivery from, a mine or a preparation plant operated as an adjunct of a mine or mines to destinations in Continental United States, the Territories of Alaska, and Hawaii, the District of Columbia and the Dominion of Canada: Provided, however, that subject to such future regulation as may be appropriate, the maximum prices established herein shall not apply to the resale of United States bituminous coal by Canadian distributors who import such coal from the United States into the Dominion of Canada and resell it for consumption in the Dominion of Canada."

Thus, it will be observed that both in periods of free competition where it was necessary to establish minimum prices and in periods of high demand where it has been necessary to establish maximum prices, the bituminous coal industry has been enabled by United States governmental regulations to extend to its Canadian consumers, the same consideration accorded consumers in the United States.

BY MR. FRAWLEY: If I understand you, there is an exception in the case of, for instance the Rochester and Pittsburgh? They import coal and resell it for consumption here. They would not be bound by that regulation?

MR. McELVANY: Oh, but the Rochester and Pittsburgh in the United States in selling that coal to the Rochester and Pittsburgh (Canada) is bound by that regulation, then after it gets into Canada your Wartime Prices and Trade Board take care of that.

BY MR. FRAWLEY: Well, that's quite right. As long as we have something comparable here.

MR. McELVANY continues brief:

There is appended to this brief as Appendix "B" schedule of maximum prices for each district (except No. 5) in Price Area No. 1, effective May, 1945.

By a combination of the figures contained in appendix "B" with those contained in Tables X or XII and XIII (plus exchange) it is possible to determine the cost of coal either f.a.s. (in bulk freighters) or f.o.b. (in self unloaders) Canadian receiving docks.

The following computations are illustrative of the manner in which these delivered costs can be calculated. Hamilton, Ontario has been selected as an illustrative destination because it is a large receiver of coal via lakes.

It receives its coal from nearly all of the districts in Price Area No. 1 and it purchases all types of coal, i.e. by-product, steam and domestic.

TABLE NO. XXIII

Delivered Costs f.o.b. Dock Hamilton, Ontario, of 2" x 0
Nut & Slack Coal Produced in Various Districts in
Price Area No. 1

| Producing District | Class | Price Net Ton-f.o.b. Mines (USF) | Freight Rate & Dumping (USF) | Exchange (C.F.) | De- Vessel. lvd. Rate Cost (C.F.) | (C.F.) |
|---------------------------|-------|---|---------------------------------------|--------------------|--|--------|
| 1. Central Pa. | F(1) | 3.23(a) | 1.65(b) | .54 | .50(c) | 5.92 |
| 2. Western Pa. | C(2) | 3.14(d) | 1.65(b) | .53 | .58(c) | 5.90 |
| 3. Northern W. Va. | F(3) | 2.73(f) | 1.85(b) | .50 | .60(g) | 5.68 |
| 4. Ohio-E. Ohio | x(2) | 2.61(h) | 1.62(b) | .47 | .58(c) | 5.28 |
| 6. West Va. Pan Handle | xx(3) | 2.69(j) | 1.65(b) | .48 | .60(g) | 5.42 |
| 7. S. low volatile | C(4) | 3.46(k) | 2.15(b) | .62 | .71(l) | 6.94 |
| 8. S. high volatile | G(5) | 2.95(n) | 2.00(b) | .54 | .71(l) | 6.20 |

- (1) via Buffalo, New York (c) Table No. XIII-E
- (2) via Erie, Pennsylvania (f) Table No. B-3
- (3) via Fairport Harbor, Ohio (g) Table No. XIII-D
- (4) via Sandusky, Ohio (h) Table No. B-4
- (5) via Toledo, Ohio (j) Table B-5
- (a) Table No. B-1 (k) Table No. B-6
- (b) Table No. X (l) Table No. XIII-A
- (c) Table No. XIII-F (n) Table No. B-7
- (d) Table No. B-2

x All mines in Eastern Ohio sub-district of District 4 (Ohio) take the same classification

xx All mines in District 6 (West Virginia Pan Handle) take the same classification.

TABLE NO. XXIV

Delivered costs, f.o.b. Dock, Hamilton, Ontario, of 2 x 3/4"
Nut Coal Produced in Various Districts in Price Area No. 1

| Producing District | Class | Price Net | | Freight | | Vessel | Dld. |
|--------------------|-------|-----------|---------|---------|----------|--------|--------|
| | | Ton fob | Mines | Rate & | Exchange | Rate | Cost |
| | | (USF) | (USF) | (USF) | (C.F.) | (C.F.) | (CF) |
| 1 Central Pa. | F(1) | 3.53(a) | 1.65(b) | .57 | .50(c) | | \$6.25 |
| 2 Western Pa. | C(2) | 3.49(d) | 1.65(b) | .57 | .58(c) | | 6.29 |
| 3 Northern W. Va. | F(3) | 2.98(f) | 1.85(b) | .53 | .60(g) | | 5.96 |
| 4 Ohio-E. Ohio | x(2) | 3.11(h) | 1.62(b) | .52 | .58(e) | | 5.83 |
| 6 West Va. Pan | | | | | | | |
| Handle | xx(3) | 3.09(j) | 1.65(b) | .52 | .60(g) | | 5.86 |
| 7 S.low volatile | A(4) | 3.81(k) | 2.15(b) | .66 | .71(l) | | 7.33 |
| 8 S.high volatile | D(5) | 3.30(m) | 2.00(b) | .58 | .71(l) | | 6.59 |

- (1) via Buffalo, New York (c) Table No. XIII-E
 (2) via Erie, Pennsylvania (f) Table No. B-3
 (3) via Fairport Harbor, Ohio (g) Table No. XIII-D
 (4) via Sandusky, Ohio (h) Table No. B-4
 (5) via Toledo, Ohio (j) Table No. B-5
 (a) Table No. B-1 (k) Table No. B-6
 (b) Table No. X (l) Table No. XIII-A
 (c) Table No. XIII-F (m) Table No. B-7
 (d) Table No. B-2

- x All mines in Eastern Ohio sub-district of District 4 (Ohio) take the same classification
 xx All mines in District 6 (West Virginia Pan Handle) take the same classification

TABLE NO. XXV

Delivered Costs f.o.b. Dock, Hamilton, Ontario of 2 x 4" Egg
Coal Produced in Various Districts in Price Area No. 1

| Producing Districts | Class | Price Net | | Freight | | Ves- | Dld. |
|---------------------|-------|------------|---------|---------|--------|------|--------|
| | | Ton f.o.b. | Mines | Rate & | Ex- | sel | Cost |
| | | (USF) | (USF) | (USF) | (C.F.) | (CF) | (CF) |
| 1 Central Pa. | F(1) | 3.53(a) | 1.65(b) | .57 | .50(c) | | \$6.25 |
| 2 Western Pa. | C(2) | 3.49(d) | 1.65(b) | .57 | .58(e) | | 6.29 |
| 3 Northern W. Va. | F(3) | 2.98(f) | 1.85(b) | .53 | .60(g) | | 5.96 |
| 4 Ohio-E. Ohio | x(2) | 3.11(h) | 1.62(b) | .52 | .58(e) | | 5.83 |
| 6 West Va. Pan | | | | | | | |
| Handle | xx(3) | 3.09(j) | 1.65(b) | .52 | .60(g) | | 5.86 |
| 7 S.low volatile | C(4) | 4.31(k) | 2.15(b) | .71 | .71(l) | | 7.88 |
| 8 S.high volatile | K(5) | 3.25(m) | 2.00(b) | .58 | .71(l) | | 6.54 |

(References as in Table No. XXIV)

BY MR. FRAWLEY: That would be one particular sort of delivery or two, either bulk freighter or self unloader?

MR. McELVANY: That is correct, and alongside the vessel rate I give the reference to the place where the rate can be found.

BY THE CHAIRMAN: What is f.a.s.?

MR. McELVANY: Free alongside. In the bulk freighter I have figured the cost along/^{side}the unloading dock in Canada. Take the Steel Company of Canada; they have their own bridges where they can unload their coal with their own equipment. If you were bringing it into Toronto, where it is brought in in a self unloader and unloaded beside the dock your price would be f.o.b. Toronto.

BY COMMISSIONER McLURIN: F.a.s. freight applies to a lot of commodities, does it?

MR. McELVANY: Well, in any commodity that you are selling f.a.s., now we are talking about an importing business, maybe we might talk about c.i.f., which is cargo, insurance and freight alongside the destination dock. (Continues brief):

Some of the larger receivers of coal at Hamilton (notably the Steel Company of Canada, Ltd., and the Hamilton By-Product Ovens, Ltd.) have their own unloading equipment on their receiving docks. This enables them to receive coal in bulk freighters, thus reducing the delivered costs under those shown in Tables Nos. XXIII, XXIV and XXV.

At Hamilton, as well as at other destinations in Canada where United States bituminous coal is purchased, there are costs over and above those shown in the foregoing tables. Among these costs are items such as harbour dues, degradation of coal, dock handling, ex-dock freight rates (when coal is reshipped inland duty, etc. These costs are all beyond the control of the United States bituminous coal producers.

The coals chosen for illustrative purposes in the preceding tables (No. XXIII to XXV inclusive) represent typical coals produced in the various districts and are all selected because they represent coals which move in considerable volume to Canadian destinations via the lake route.

MR. McELVANY: Now if the Commission pleases, I don't believe it is necessary to read that--From District 1 to 8. It is simply an explanation why in Central Pennsylvania I took a

Class F coal and the price scale, and in Southern West Virginia I took a Class C coal.

BY MR. FRAWLEY: You say you have given the reasons why you made those selections?

MR. McELVANY: Yes. I have selected a different class coal in each one of those districts, and those are the reasons why that particular coal was selected.

BY MR. FRAWLEY: And they have been used in the tables?

MR. McELVANY: They have been used in the Tables XXIII to XXV. (Continues brief):

In District 1, Class F is representative of the coals which move in large tonnage volume to Canada. Most of the coal moving from District 1 to Canada originates in the Reynoldsville sub-district and Class F is the highest classification in that sub-district on steam and domestic coals.

District 2, Class C was selected because that classification embodies coal which also moves to Canada in large volume. Class C represents high grade Youghiogheny - Westmoreland sub-district coals adaptable for by-product, steam and domestic uses. It also represents what was known under minimum price regulations as a "base" coal which was used by the Bituminous Coal Division in the co-ordination of minimum prices between districts.

District 3, Class F was taken as a typical coal because it represents the coal from which substantially all of the Canadian tonnage is drawn. Class F coals in Fairmont embrace what is known as Pittsburgh seam high sulphur coals (coals with sulphur content of 1.35% or over) and as stated above is the classification which supplies practically all the Canadian tonnage.

District 4--Eastern Ohio mines selected because those mines shipped in 1943 over 92% of the total lake cargo movement. These mines produce coal from the Pittsburgh Seam, locally denominated as Ohio No. 8 coals and all mines in the Eastern Ohio sub-division of District 4 take the same price classification.

District 6--All mines in this district produce coal from the Pittsburgh seam and all mines take the same price classification, therefore the District price is used.

District 7--First for the reason that the majority of the lake coal moving from District 7 is Pocahontas coal (67% of the District 7 lake movement in 1943 was from Pocahontas mines) it was decided to select a high grade Pocahontas coal for illustrative purpose for District 7. Then the mines in the Pocahontas No. 3 seam were selected as being representative of high grade coals adaptable for by-product, steam or domestic purposes. Also, again these mines represent ones that were considered "base" coals by the Bituminous Coal Division. The fact that District 7 mines do not carry the same letter classifications in all sizes is the reason why Class C is used in Tables XXIII and XXV and Class A is used in Table XXIV.

District 8--It was a little more difficult to select a typical mine or classification for use in District 8 due to the large number of sub-divisions of this district which ship lake cargo coal. The selection was made in this way: the Kanawha sub-division of District 8 is the one shipping the largest tonnage of lake coal (44% for the total lake shipments in 1943 came from the Kanawha sub-division); the largest shipments of lake coal from the Kanawha sub-division is from the Island Creek seam; it is also a well known fact that large quantities of Island Creek seam coal are marketed in Canada; and again the Island Creek coals were one of the coals selected by the Bituminous Coal Division as a "base" coal for the establishment and co-ordination of minimum prices. Like the classification method followed for District 7, the same classification letter is not used uniformly through all sizes which accounts for the fact that Class G is used in Table No. XXIII, Class D in Table No. XXIV and Class K in Table No. XXV.

There has previously been submitted to your Royal Commission, by other parties, certain factual data with respect to

the competition of Fairmont coals (District No. 3) with coal produced in the Dominion of Canada. From the stress laid upon the Fairmont coal competition, the inference might be drawn improperly that these coals are the dominant competitive factor presented by exports of bituminous coal from the United States. From a tonnage volume standpoint, this is not the case.

When the Bituminous Coal Division established the original minimum prices, they selected the year 1937 as representing a normal year of coal distribution, and prices were established to maintain that distribution pattern as nearly as could be obtained.

During the year 1937, out of a total of 311,488,000 tons produced in Price Area No. 1, only 23,093,000 tons or 7.4% was produced in District 3 (Fairmont). Out of this total, the following tonnages moved to Canada:

| | |
|---|--------------------|
| Canadian National Railroad (all rail) | 10,180 tons |
| Canadian National Railroad (via lake) | 53,193 tons |
| Canadian Pacific Railway (all rail) | 268,221 tons |
| Canadian Pacific Railway (via lake) | 197,584 tons |
| Quebec and Ontario--industrial and retail (all rail) (1) | <u>30,813 tons</u> |
| | 559,991 tons |

(1) Of this tonnage, only 1,180 tons was in the slack size (3/4" x 0) the size apparently regarded as the most competitive with the Canadian coal.

In addition to the above, District 3 (Fairmont) shipped a total of 1,580,335 tons to lower Lake Erie and Lake Ontario ports for transshipment by water.

Of this latter figure, only 419,453 tons was in the 3/4" x 0 slack size. We do not have the complete distribution of this lake tonnage, but we do know that it is transshipped all over the Great Lakes to destinations in both the United States and Canada. However, if we add this entire tonnage of 419,453 tons to the 559,991 tons shown in the above tabulation, the total would amount to 979,444 tons or only 8% of the total tonnage imported for consumption in the Provinces of Quebec and Ontario during the year 1937. The fact of the matter is that excluding the Canadian National Railways and the Canadian Pacific Railway tonnage (which is entirely in the egg and mine run

sizes) District 3 (Fairmont) is relatively unimportant as a supplier of the Canadian market. (All of these figures as to 1937 distribution are taken from the official compilations of the Bituminous Coal Division).

With the return of normal conditions it is expected that costs of production will be appreciably reduced for several reasons, including the following:

- I. Return to a five (5) day week thus eliminating premium overtime pay now incurred on the sixth day.
- II. Younger men will be returning to the mines thus enabling replacements to be made of over-age employees.
- III. Availability of mechanical mining equipment will permit accelerated progress in underground mechanization.

Thus with an almost limitless coal reserve in the United States, with large units efficiently and economically operated, with continued advancement in the installation of mechanical cleaning equipment to insure shipment of coal with high fuel efficiencies, with the United States bituminous producers always ready and willing to take care of those markets in Canada normally served by them, and with adequate and efficient rail and water transportation available, the Canadian coal consumer can look forward to the future with the assurance that his coal requirement will be adequately and economically met.

S U M M A R Y

1. There is an unlimited reserve of bituminous coal in the United States, assuring both United States and Canadian consumers of a continuous source of supply.
2. Adequate transportation facilities with ample capacity, both rail and lake, are available to insure prompt, efficient and economical movement of Canada's bituminous coal requirements from the United States at reasonable and non-discriminatory rates.
3. Large mines equipped with mechanical loading and

cleaning equipment insure economical cost of production and the best cleaning and sizing of coal that can be secured.

4. Substantially all of the bituminous coal exported from the United States to Canada is produced in Price Area No. 1 (in which is produced the highest quality coal in the United States) and moves to the Provinces of Quebec and Ontario.

5. The bituminous coal industry of the United States normally supplies over forty (40) per cent of the bituminous coal consumption of the Dominion of Canada and during the period of wartime stress has supplied as much as sixty (60) per cent. (See Table No. I).

6. During the war period, because a major portion of Canada's bituminous coal imports has moved via the Great Lakes, preference has been accorded to Canada's requirements.

7. Without the imports of United States bituminous coal during the war years, Canadian homes would not have been adequately heated and Canadian industry would have been very seriously handicapped.

BY COMMISSIONER MORRISON: At that point--I am very sorry; it is not any discourtesy to you--I have to leave for the afternoon. I am very glad to have met you.

MR. McELVANY: Thank you. (Continues brief):

8. The bituminous coal industry of the United States stands ready in the future, as in the past, to supply that portion of the Canadian market which normally draws its bituminous coal requirements from the United States.

9. Coal prices f.o.b. mines in the United States, over a period of years, have closely approximated the cost of production. Reduced costs in the post-war period brought about by elimination of six day week, retirement of superannuated employees and increased use of underground mechanization will undoubtedly tend to reduce costs, resulting in economies which will inure to the benefit of Canadian coal consumers. At the same time it is hoped that we will be able to sell our coal at a realization

which will cover all items of cost and return a fair profit on our investment.

10. Many items of cost, included in the present delivered price of United States coal paid by consumers in Canada are Canadian factors over which the United States coal producers have no control; e.g., duty, exchange rates, harbour dues, etc. Any reduction in these factors of cost will inure to the benefit of the Canadian coal consumers.

A P P E N D I X A.

SCHEDULE OF MINIMUM PRICES

effective October 1, 1942

for all Districts (except District No. 5)
comprising Price Area No. 1

TABLE NO. A-1

Minimum Prices for District No. 1, Effective Oct. 1, 1942

| | SIZE GROUPS | | | | |
|---------|-------------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 |
| Class A | 2.65 | 2.55 | 2.55 | 2.45 | 2.25 |
| B | 2.60 | 2.50 | 2.50 | 2.40 | 2.25 |
| C | 2.55 | 2.45 | 2.45 | 2.35 | 2.25 |
| D | 2.50 | 2.40 | 2.40 | 2.30 | 2.20 |
| E | 2.45 | 2.35 | 2.35 | 2.25 | 2.15 |
| F | 2.40 | 2.30 | 2.30 | 2.20 | 2.10 |
| G | 2.35 | 2.25 | 2.25 | 2.15 | 2.05 |
| H | 2.30 | 2.20 | 2.20 | 2.10 | 2.00 |
| J | | | | 2.05 | 1.95 |
| K | | | | 2.00 | 1.90 |

DESCRIPTION OF SIZE GROUPS

Size Group

- 1 All lump coal
- 2 All double screened coal having top size over 2"
- 3 All double screened coal with top size not exceeding 2".
- 4 Run of Mine
- 5 Screenings larger than 3/4" but not exceeding 2"
- 6 Screenings with top size not exceeding 3/4"

TABLE NO. A-2

Minimum Prices for District No. 2, Effective October 1, 1942

| Class | S I Z E G R O U P S | | | | | | | | | |
|-------|---------------------|------|------|------|------|------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| A | 2.50 | 2.50 | 2.40 | 2.40 | 2.35 | 2.35 | 2.20 | 2.20 | 2.10 | 2.00 |
| B | 2.45 | 2.45 | 2.35 | 2.35 | 2.30 | 2.30 | 2.15 | 2.15 | 2.05 | 1.95 |
| C | 2.40 | 2.40 | 2.30 | 2.30 | 2.25 | 2.25 | 2.10 | 2.10 | 2.00 | 1.90 |
| D | 2.35 | 2.35 | 2.25 | 2.25 | 2.20 | 2.20 | 2.05 | 2.05 | 1.95 | 1.85 |
| E | 2.30 | 2.30 | 2.20 | 2.20 | 2.15 | 2.15 | 2.00 | 2.00 | 1.90 | 1.80 |
| F | 2.25 | 2.25 | 2.15 | 2.15 | 2.10 | 2.10 | 1.95 | 1.95 | 1.85 | |
| G | 2.20 | 2.20 | 2.10 | 2.10 | 2.05 | 2.05 | 1.90 | 1.90 | 1.80 | |
| H | 2.15 | 2.15 | 2.05 | 2.05 | 2.00 | 2.00 | 1.85 | 1.85 | 1.75 | |
| J | 2.10 | 2.10 | 2.00 | 2.00 | 1.95 | 1.95 | 1.80 | 1.80 | 1.70 | |
| K | 2.05 | 2.05 | | | | | 1.75 | 1.75 | 1.65 | |
| L | 2.00 | 2.00 | | | | | | | | |

DESCRIPTION OF SIZE GROUPS

Size Group

- 1 Lump coal larger than 5" bottom size
- 2 Lump coal larger than 2" but not exceeding 5" bottom size
Double screened coal with a bottom size larger than 2"
- 3 Lump coal larger than $1\frac{1}{4}$ " but not exceeding 2" bottom size
Double screened coal with a bottom size larger than $1\frac{1}{4}$ "
but not over 2", and a top size larger than 2"
- 4 Lump coal with a bottom size $1\frac{1}{4}$ " and smaller
Double screened coal with a bottom size $1\frac{1}{4}$ " and smaller,
and a top size larger than 2"
- 5 All double screened coal with a top size 2" and smaller
- 6 Run of Mine and resultants larger than 2" x 0
- 7 Screenings larger than $1\frac{1}{4}$ " top but not exceeding 2"
top size
- 8 Screenings larger than $\frac{3}{4}$ " but not exceeding $1\frac{1}{4}$ " top size
- 9 Screenings larger than $\frac{3}{8}$ " but not exceeding $\frac{3}{4}$ " top size
- 10 Screenings with a top size $\frac{3}{8}$ " and smaller

TABLE NO. A-3

Minimum Prices for District No. 3, Effective October 1, 1942

| Class | S I Z E G R O U P S | | | | | | | | | |
|-------|---------------------|------|------|------|------|------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| A | 2.65 | 2.65 | 2.60 | 2.60 | 2.45 | 2.45 | 2.30 | 2.30 | 2.25 | 2.25 |
| D | 2.15 | 2.15 | 2.10 | 2.10 | 2.05 | 2.05 | 1.90 | 1.90 | 1.80 | 1.80 |
| E | 2.10 | 2.10 | 2.05 | 2.05 | 2.00 | 2.00 | 1.85 | 1.85 | 1.75 | 1.75 |
| F | 2.05 | 2.05 | 2.00 | 2.00 | 1.95 | 1.95 | 1.80 | 1.80 | 1.70 | 1.70 |
| G | 2.00 | 2.00 | 1.95 | 1.95 | 1.90 | 1.90 | 1.75 | 1.75 | 1.65 | 1.65 |
| H | 1.95 | 1.95 | 1.90 | 1.90 | 1.85 | 1.85 | 1.70 | 1.70 | 1.60 | 1.60 |
| J | 1.90 | 1.90 | 1.85 | 1.85 | 1.80 | 1.80 | 1.60 | 1.60 | 1.50 | 1.50 |

DESCRIPTION OF SIZE GROUPS

The size groups applicable on District No. 3 coals are the same as those applying on District No. 2 coals as shown under Table No. A-2.

TABLE NO. A-4

Minimum Prices for District No. 4, Effective Oct. 1, 1942

| | S I Z E G R O U P S | | | | | | | |
|--------------|---------------------|------|------|------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Eastern Ohio | 2.13 | 2.13 | 2.08 | 2.08 | 2.03 | 2.03 | 1.83 | 1.73 |
| Cambridge | 2.13 | 2.13 | 2.08 | 2.08 | 2.03 | 2.03 | 1.83 | 1.73 |
| Hocking | 2.33 | 2.33 | 2.08 | 2.08 | 2.03 | 2.03 | 1.73 | 1.63 |
| Pomeroy | 2.33 | 2.33 | 2.08 | 2.08 | 2.03 | 2.03 | 1.73 | 1.63 |
| Crooksville | 2.13 | 2.13 | 2.08 | 2.08 | 2.03 | 2.03 | 1.73 | 1.63 |
| Jackson | 2.33 | 2.33 | 2.08 | 2.08 | 2.03 | 2.03 | 1.73 | 1.63 |
| Middle | 2.18 | 2.18 | 2.13 | 2.13 | 2.08 | 2.08 | 1.88 | 1.78 |
| Leetonia | 2.18 | 2.18 | 2.13 | 2.13 | 2.08 | 2.08 | 1.88 | 1.78 |

DESCRIPTION OF SIZE GROUPS

Size Group

- 1 Lump coal larger than 5"
- 2 Lump coal bottom size larger than 2" but not exceeding 5"
- 3 Lump and double screened coal bottom size larger than $1\frac{1}{4}$ " but not exceeding 2"
- 4 Lump coal bottom size $1\frac{1}{4}$ " and smaller
Double screened coal bottom size $1\frac{1}{4}$ " and smaller and top size larger than 2"
- 5 All double screened coal top size 2" and smaller
- 6 Run of Mine and resultants larger than 2" x 0.
- 7 Screenings larger than $\frac{3}{4}$ " but not exceeding 2" top size
- 8 Screenings top size $\frac{3}{4}$ " and smaller

TABLE NO. A-5

Minimum Prices for District No. 6, Effective Oct. 1, 1942

| | S I Z E G R O U P S | | | | | | | |
|-------|---------------------|------|------|------|------|------|------|------|
| Class | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| C | 2.10 | 2.10 | 2.05 | 2.05 | 2.00 | 2.00 | 1.80 | 1.70 |
| E | 2.00 | 2.00 | 1.95 | 1.95 | 1.90 | 1.90 | 1.70 | 1.60 |

DESCRIPTION OF SIZE GROUPS

The size groups applicable on District No. 6 coals are the same as those applying on District No. 4 coals, as shown under Table No. A-4

TABLE NO. A-6

Minimum Prices for District No. 7, Effective Oct. 1, 1942
(low volatile coal)

| | S I Z E G R O U P S | | | | | | | | | |
|-------|---------------------|------|------|------|------|------|------|------|------|------|
| Class | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| A | 2.90 | 3.00 | 2.80 | 2.45 | 2.45 | 3.00 | 2.35 | 2.20 | 2.15 | 2.10 |
| B | 2.75 | 2.85 | 2.65 | 2.40 | 2.40 | 3.00 | 2.35 | 2.15 | 2.10 | 2.05 |
| C | 2.65 | 2.75 | 2.55 | 2.35 | 2.35 | 2.90 | 2.25 | 2.10 | 2.05 | 2.00 |
| D | 2.50 | 2.60 | 2.40 | 2.25 | 2.25 | 2.80 | 2.15 | 2.05 | 2.00 | 1.95 |
| E | 2.45 | 2.55 | 2.35 | 2.20 | 2.20 | 2.70 | | 2.00 | 1.95 | 1.90 |
| F | 2.40 | 2.50 | | | | | | 1.95 | 1.90 | 1.85 |
| G | | | | | | | | 1.90 | 1.85 | 1.80 |
| H | | | | | | | | 1.85 | 1.80 | 1.75 |
| I | | | | | | | | 1.80 | 1.75 | 1.70 |
| J | | | | | | | | 1.75 | 1.70 | 1.65 |

DESCRIPTION OF SIZE GROUPS

1. Lump
2. Egg
3. Stove
4. Nut
5. Pea
6. Screened Mine Run
7. Straight Mine Run
8. Screenings larger than $\frac{3}{4}$ " x 0 but not exceeding $1\frac{1}{4}$ " x 0
9. Screenings larger than $\frac{3}{8}$ " x 0 but not exceeding $\frac{3}{4}$ " x 0
10. Screenings $\frac{3}{8}$ " x 0 and smaller

TABLE NO. A-7

Minimum Prices for District No. 8, Effective October 1, 1942
(high volatile)

S I Z E G R O U P S

| Class | 1-2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|-------|------|------|------|------|------|------|------|------|------|
| A | 3.05 | 2.95 | 2.90 | 2.75 | 2.70 | 2.45 | 2.30 | 2.25 | 2.55 |
| B | 2.95 | 2.85 | 2.80 | 2.70 | 2.65 | 2.40 | 2.25 | 2.20 | 2.50 |
| C | 2.80 | 2.70 | 2.65 | 2.65 | 2.50 | 2.35 | 2.20 | 2.15 | 2.45 |
| D | 2.75 | 2.65 | 2.60 | 2.60 | 2.55 | 2.30 | 2.15 | 2.10 | 2.40 |
| E | 2.70 | 2.60 | 2.55 | 2.50 | 2.25 | 2.10 | 2.05 | 2.35 | 2.40 |
| F | 2.65 | 2.55 | 2.50 | 2.50 | 2.45 | 2.20 | 2.05 | 2.00 | 2.30 |
| G | 2.60 | 2.50 | 2.45 | 2.45 | 2.40 | 2.15 | 2.00 | 1.95 | 2.25 |
| H | 2.55 | 2.45 | 2.40 | 2.40 | 2.35 | 2.10 | 1.95 | 1.90 | 2.20 |
| J | 2.50 | 2.40 | 2.35 | 2.35 | 2.30 | 2.05 | | | 2.15 |
| K | 2.45 | 2.35 | 2.30 | 2.30 | 2.25 | 2.00 | | | 2.10 |
| L | 2.40 | 2.30 | 2.25 | 2.25 | 2.20 | | | | 2.05 |
| M | 2.35 | 2.25 | 2.20 | 2.20 | 2.15 | | | | 2.00 |
| N | 2.30 | 2.20 | 2.15 | 2.15 | 2.10 | | | | |
| O | 2.25 | 2.15 | 2.10 | 2.10 | 2.05 | | | | |
| P | 2.20 | 2.10 | 2.05 | | | | | | |
| Q | 2.15 | 2.05 | 2.00 | | | | | | |
| R | 2.10 | | | | | | | | |

| Class | 16 | 17 | 18 | 19 | 20 | 21 | 22 |
|-------|------|------|------|------|------|------|------|
| A | 2.60 | 2.50 | 2.30 | 2.25 | 2.20 | 2.15 | 2.10 |
| B | 2.55 | 2.45 | 2.25 | 2.20 | 2.15 | 2.10 | 2.05 |
| C | 2.50 | 2.40 | 2.20 | 2.15 | 2.10 | 2.05 | 2.00 |
| D | 2.45 | 2.35 | 2.15 | 2.10 | 2.05 | 2.00 | 1.95 |
| E | 2.40 | 2.30 | 2.10 | 2.05 | 2.00 | 1.95 | 1.90 |
| F | 2.35 | 2.25 | 2.05 | 2.00 | 1.95 | 1.90 | 1.85 |
| G | 2.30 | 2.20 | 2.00 | 1.95 | 1.90 | 1.85 | 1.80 |
| H | 2.25 | 2.15 | 1.95 | 1.90 | 1.85 | 1.80 | 1.75 |
| J | 2.20 | 2.10 | 1.90 | 1.85 | 1.80 | 1.75 | 1.70 |
| K | 2.15 | 2.05 | 1.85 | 1.80 | 1.75 | 1.70 | 1.65 |
| L | 2.10 | 2.00 | 1.80 | 1.75 | 1.70 | 1.65 | 1.60 |
| M | 2.05 | 1.95 | 1.75 | 1.70 | 1.65 | 1.60 | 1.55 |
| N | 2.00 | 1.90 | 1.70 | 1.65 | 1.60 | 1.55 | 1.50 |
| O | 1.95 | 1.85 | 1.65 | 1.60 | 1.55 | 1.50 | 1.45 |
| P | 1.90 | 1.80 | 1.60 | 1.55 | 1.50 | 1.45 | 1.40 |
| Q | 1.85 | 1.75 | 1.55 | 1.50 | 1.45 | 1.40 | 1.35 |

DESCRIPTION OF SIZE GROUPS--DISTRICT NO. 8

Size Group

- 1-2 Lump and Block larger than 3"
 3 Lump: larger than 2" but not exceeding 3"
 Egg: top size larger than 3" but not exceeding 6",
 bottom size larger than 3" but not exceeding 4"

Size Group

- 4 Lump: larger than $\frac{3}{4}$ " but not exceeding 2"
Egg: top size larger than 6", bottom size larger than 2" but not exceeding 3"
- 5 Egg: top size larger than 5" but not exceeding 6", bottom size larger than 2" but not exceeding 3", top size larger than 6", bottom size 2" and smaller
- 6 Egg: top size larger than 5" but not exceeding 6", bottom size 2" and smaller, top size 3" but not exceeding 5", bottom size larger than 2" but not exceeding 3".
- 7 Egg: top size larger than 3" but not exceeding 5", bottom size 2" and smaller
- 8 Stove: top size larger than 2" but not exceeding 3", bottom size 2" and smaller
- 9 Nut: top size larger than $1\frac{1}{4}$ " but not exceeding 2", bottom size larger than 2"
- 10 Stoker: top size $1\frac{1}{4}$ " and smaller, bottom size smaller than $1\frac{1}{4}$ "
- 16 Run of Mine
- 17 Resultant or altered run of mine: larger than $2\frac{3}{4}$ " x 0 but not exceeding 6" x 0; no coal smaller than $3/8$ " x 0 removed
- 18 Dedusted screenings: top size 2" and smaller; bottom size larger than 100 mesh but not exceeding 10 mesh
Modified screenings: screenings with top size not exceeding 2", total consist containing at least 15% $3/8$ " x 0 screenings
- 19 Screenings: larger than 2" x 0 but not exceeding $2\frac{3}{4}$ " x 0
- 20 Screenings: larger than $\frac{3}{4}$ " x 0 but not exceeding 2" x 0
- 21 Screenings: larger than $3/8$ " x 0 but not exceeding $\frac{3}{4}$ " x 0
Altered Screenings: Screenings with top size not exceeding $2\frac{3}{4}$ " from which all of the 1 " to $1\frac{1}{4}$ " top and $1/8$ " to $3/8$ " bottom coal has been removed
- 22 Screenings: $3/8$ " x 0 and smaller

A P P E N D I X B

Schedule of Maximum Prices Effective May 1, 1945 for all Districts (except District No. 5) Comprising Price Area No. 1

TABLE B-1

Maximum Prices for District No. 1, Effective May 1, 1945
Prices per net ton f.o.b. Mines

| | S I Z E G R O U P S | | | | |
|---------|---------------------|------|------|------|------|
| | 1 | 2 | 3 | 4 | 5 |
| Class A | 4.03 | 3.88 | 3.78 | 3.63 | 3.48 |
| B | 3.98 | 3.88 | 3.68 | 3.58 | 3.48 |
| C | 3.88 | 3.33 | 3.63 | 3.48 | 3.48 |
| D | 3.78 | 3.58 | 3.53 | 3.43 | 3.43 |
| E | 3.73 | 3.53 | 3.53 | 3.33 | 3.33 |
| F | 3.53 | 3.53 | 3.53 | 3.23 | 3.23 |
| G | 3.48 | 3.48 | 3.33 | 3.23 | 3.23 |
| H | 3.48 | 3.48 | 3.28 | 3.03 | 3.03 |

Description of size groups is shown under Table A-1

TABLE B-2

Maximum Prices for District No. 2, Effective May 1, 1945
Prices per net ton f.o.b. mines.

| | | <u>S I Z E G R O U P S</u> | | | | |
|-------|---|---------------------------------|----------|----------|----------|----------|
| | | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> |
| Class | A | 3.69 | 3.49 | 3.39 | 3.14 | 2.99 |
| | B | 3.64 | 3.49 | 3.39 | 3.14 | 2.99 |
| | C | 3.64 | 3.49 | 3.39 | 3.14 | 2.94 |
| | D | 3.49 | 3.39 | 3.29 | 3.09 | 2.84 |
| | E | 3.49 | 3.19 | 3.09 | 2.89 | 2.74 |
| | F | 3.24 | 3.14 | 3.04 | 2.89 | 2.74 |
| | G | 3.24 | 3.14 | 3.04 | 2.84 | 2.69 |
| | H | 3.24 | 3.09 | 2.99 | 2.74 | 2.64 |
| | I | 3.24 | 2.89 | 2.79 | 2.74 | 2.64 |

Size Group 1 - Lump and Egg Coal

- 2. - Double screened coal, bottom size 2" and smaller.
- 3 - Mine Run Coal
- 4 - Screenings larger than $\frac{3}{4}$ " x 0 and not exceeding 2"x0
- 5 - Screenings $\frac{3}{4}$ " x 0 and smaller.

TABLE B-3

Maximum Prices for District No. 3, Effective May 1, 1945
Prices per net ton f.o.b. mines.

| | | <u>S I Z E G R O U P S</u> | | | | |
|-------|---------|---------------------------------|----------|----------|----------|----------|
| | | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> |
| Class | A | 4.08 | 3.68 | 3.48 | 3.33 | 3.35 |
| | D and E | 3.08 | 3.03 | 2.93 | 2.88 | 2.83 |
| | F | 2.98 | 2.98 | 2.83 | 2.73 | 2.63 |
| | G | 2.98 | 2.98 | 2.93 | 2.93 | 2.88 |
| | H | 2.88 | 2.83 | 2.73 | 2.73 | 2.63 |
| | I | 2.83 | 2.83 | 2.73 | 2.68 | 2.53 |

Size Group 1 - Lump and Egg Coal

- 2 - Double screened coal, bottom size 2" and smaller.
- 3 - Mine Run Coal
- 4 - Screenings larger than $\frac{3}{4}$ " x 0 and not exceeding 2"x0.
- 5 - Screenings $\frac{3}{4}$ " x 0 and smaller.

TABLE B-4

Maximum Prices for District No. 4, Effective May 1, 1945.
Prices per net ton f.o.b. mines

| | <u>S I Z E G R O U P S</u> | | | | |
|--------------|---------------------------------|----------|----------|----------|----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> |
| Eastern Ohio | 3.31 | 3.11 | 2.96 | 2.61 | 2.51 |
| Cambridge | 3.31 | 3.11 | 2.96 | 2.61 | 2.51 |
| Bergholz | 3.51 | 3.36 | 3.16 | 2.76 | 2.66 |
| Middle | 3.51 | 3.36 | 3.16 | 2.76 | 2.66 |
| Hocking | 3.91 | 3.51 | 3.31 | 3.06 | 2.96 |
| Crooksville | 3.51 | 3.21 | 3.11 | 2.71 | 2.71 |
| Jackson | 3.71 | 3.41 | 3.11 | 2.81 | 2.71 |
| Pomeroy | 3.51 | 3.21 | 3.11 | 2.71 | 2.71 |

Size Group 1 - Lump coal 2" and larger.

2 - Lump coal under 2" - All double screened coal.

3 - Mine Run.

4 - Screenings larger than $\frac{3}{4}$ " x 0 and not exceeding 2"x0.

5 - Screenings $\frac{3}{4}$ " x 0 and smaller.

TABLE B-5

Maximum Prices for District No. 6, Effective May 1, 1945
Prices per net ton f.o.b. mines.

| | <u>S I Z E G R O U P S</u> | | | |
|-----------|---------------------------------|----------|----------|----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> |
| All mines | 3.34 | 3.09 | 3.04 | 2.69 |

Size Group 1 - Lump and double screened coal, bottom size larger than 2".

2 - Lump and double screened coal, bottom size 2" and smaller.

3 - Mine Run

4 - Screenings 2" x 0 and smaller.

TABLE B-6

Maximum Prices for District No. 7 (low volatile) Effective May 1,
Prices per net ton f.o.b. mines. 1945.

| Class | S I Z E G R O U P S | | | | | | | | | |
|-------|--------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> | <u>9</u> | <u>10</u> |
| A | 4.61 | 4.71 | 4.36 | 3.81 | 3.71 | 4.06 | 3.76 | 3.46 | 3.41 | 3.36 |
| B | 4.21 | 4.31 | 4.26 | 3.66 | 3.51 | 4.06 | 3.76 | 3.46 | 3.41 | 3.36 |
| C | 4.21 | 4.31 | 4.26 | 3.66 | 3.51 | 4.01 | 3.46 | 3.41 | 3.36 | 3.31 |
| D | 4.06 | 4.16 | 4.06 | 3.66 | 3.51 | 4.01 | 3.46 | 3.36 | 3.31 | 3.26 |
| E | 4.06 | 4.11 | 4.01 | 3.61 | 3.26 | 3.81 | | 3.31 | 3.26 | 3.21 |
| F | 4.06 | 4.11 | | | | | | 3.26 | 3.21 | 3.16 |

Size Group 1 - Lump

2 - Egg

3 - Stove

4 - Nut

5 - Pea

6 - Screened Mine Run

7 - Straight Mine Run

8 - Screenings larger than $\frac{3}{4}$ " x 0 but not exceeding $1\frac{1}{4}$ " x 0.

9 - Screenings larger than $\frac{3}{8}$ " x 0 but not exceeding $\frac{3}{4}$ " x 0.

10 - Screenings $\frac{3}{8}$ " x 0 and smaller.

TABLE NO. B-7

Maximum Prices for District No. 8 (High-Volatile) Effective May 1,
1945.
Prices per net ton f.o.b. mines.

| Class | <u>SIZE GROUPS</u> | | | | | | | |
|-------|--------------------|----------|----------|----------|----------|----------|----------|----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> |
| A | 4.50 | 4.50 | 4.50 | 4.30 | 4.10 | 3.85 | 3.65 | 3.50 |
| B | 4.50 | 4.25 | 4.25 | 4.05 | 3.85 | 3.60 | 3.40 | 3.35 |
| C | 4.30 | 4.10 | 4.10 | 3.95 | 3.85 | 3.60 | 3.40 | 3.35 |
| D | 4.20 | 4.10 | 4.10 | 3.95 | 3.85 | 3.60 | 3.40 | 3.35 |
| E | 4.10 | 4.00 | 3.90 | 3.85 | 3.85 | 3.55 | 3.35 | 3.30 |
| F | 4.00 | 3.95 | 3.85 | 3.85 | 3.70 | 3.55 | 3.35 | 3.30 |
| G | 4.00 | 3.90 | 3.75 | 3.75 | 3.60 | 3.50 | 3.30 | 3.25 |
| H | 3.95 | 3.90 | 3.75 | 3.75 | 3.60 | 3.50 | 3.30 | 3.20 |
| J | 3.90 | 3.85 | 3.75 | 3.75 | 3.60 | 3.50 | 3.30 | 3.15 |
| K | 3.80 | 3.75 | 3.65 | 3.65 | 3.60 | 3.50 | 3.25 | 3.10 |
| L | 3.65 | 3.65 | 3.60 | 3.60 | 3.35 | 3.35 | 3.25 | 3.10 |
| M | 3.65 | 3.65 | 3.60 | 3.60 | 3.35 | 3.30 | 3.25 | 3.10 |
| N | 3.65 | 3.65 | 3.60 | 3.60 | 3.35 | 3.30 | 3.20 | |
| O | 3.45 | 3.55 | 3.40 | 3.40 | 3.25 | 3.15 | 3.10 | |
| P | 3.45 | 3.40 | 3.35 | 3.35 | 3.20 | 3.15 | 3.10 | |

| Class | <u>SIZE GROUPS</u> | | | | | | |
|-------|--------------------|-----------|-------------------------------------|-----------|-----------|------------------------|-----------|
| | <u>9</u> | <u>10</u> | <u>15</u> <u>16</u> <u>17</u> | <u>18</u> | <u>19</u> | <u>20</u> <u>21</u> | <u>22</u> |
| A | 3.40 | 4.20 | 3.20 | 3.20 | 3.20 | 3.15 | 3.00 |
| B | 3.30 | 3.85 | 3.20 | 3.20 | 3.20 | 3.15 | 2.95 |
| C | 3.30 | 3.85 | 3.15 | 3.15 | 3.15 | 3.15 | 2.95 |
| D | 3.30 | 3.85 | 3.15 | 3.15 | 3.15 | 3.15 | 2.90 |
| E | 3.25 | 3.85 | 3.15 | 3.10 | 3.05 | 3.05 | 2.80 |
| F | 3.20 | 3.60 | 3.10 | 3.10 | 3.05 | 3.05 | 2.75 |
| G | 3.15 | 3.60 | 3.10 | 3.10 | 3.00 | 2.95 | 2.65 |
| H | 3.10 | 3.55 | | 3.10 | 3.00 | 2.95 | 2.60 |
| J | 3.05 | 3.55 | | 3.10 | 3.00 | 2.95 | 2.60 |
| K | 3.05 | 3.55 | | 3.00 | 2.95 | 2.95 | 2.55 |
| L | | 3.55 | | 3.00 | 2.95 | 2.95 | 2.55 |
| M | | 3.55 | | 2.80 | 2.75 | 2.70 | 2.55 |
| N | | | | 2.80 | 2.75 | 2.70 | 2.45 |
| O | | | | 2.80 | 2.75 | 2.70 | 2.20 |
| P | | | | 2.80 | 2.75 | 2.70 | 2.20 |

Size Group

1 - All single screened block, bottom size larger than 5".

2 - All single-screened lump, bottom size larger than 3", but
not exceeding 5".

All double-screened egg coals, top size larger than 6" and
bottom size larger than 3", but not exceeding 4".

All double-screened coals, top size 5" and larger, and
bottom size larger than 4".

Size Group

- 3 - All single-screened lump, bottom size larger than 2", but not exceeding 3".
- All double-screened egg coals, top size larger than 3", but not exceeding 6", and bottom size larger than 3", but not exceeding 4".
- 4 - All single-screened lump, bottom size larger than $\frac{3}{4}$ ", but not exceeding 2".
- All double screened egg coals, top size larger than 6", and bottom size larger than 2", but not exceeding 3".
- 5 - All double-screened egg coals, top size larger than 5", but not exceeding 6", and bottom size larger than 2", but not exceeding 3", and top size larger than 6", and bottom size 2" and smaller.
- 6 - All double screened egg coals, top size larger than 5", but not exceeding 6", and bottom size 2" and smaller, and top size 3" and larger, but not exceeding 5", and bottom size larger than 2", but not exceeding 3".
- 7 - All double-screened egg coals, top size larger than 3", but not exceeding 5" and bottom size 2" and smaller.
- 8 - All double-screened stove coals, top size larger than 2", but not exceeding 3", and bottom size 2" and smaller.
- 9 - All double screened nut coals, top size larger than $1\frac{1}{4}$ ", but not exceeding 2", and bottom size smaller than 2".
- 10 - All double screened stoker coals, top size not exceeding $1\frac{1}{4}$ ", and bottom size less than $1\frac{1}{4}$ ".
- 15 - Screen run of mine, bottom size $\frac{3}{4}$ " or smaller.
- 16 - Straight run of mine.
- Altered run of mine (straight run of mine from which any intermediate size has been removed, but no coal smaller than $\frac{3}{8}$ " shall be removed).
- Resultant run of mine larger than 6" x 0.
- Altered resultant run of mine (straight resultant run of mine larger than 6" x 0 from which any intermediate size had been removed, but no coal smaller than $\frac{3}{8}$ " shall be removed).
- 17 - Straight resultant run of mine (larger than $2\frac{3}{4}$ " x 0, but not exceeding 6" x 0).
- Altered resultant run of mine (straight resultant run of mine larger than $2\frac{3}{4}$ " x 0, but not exceeding 6" x 0 from which any intermediate size has been removed, but no coal smaller than $\frac{3}{8}$ " shall be removed).
- 18 - Dedusted screenings, top size 2" and smaller and bottom size larger than 100 mesh, but not exceeding 10 mesh.
- Modified screenings (top size not exceeding 2" total consist containing not less than 15% $\frac{3}{8}$ " x 0 screenings).

Size Group

- 19 - Screenings larger than 2" x 0, but not exceeding $2\frac{3}{4}$ " x 0.
- 20 - Screenings larger than $\frac{3}{4}$ " x 0, but not exceeding 2" x 0.
- 21 - Screenings larger than $\frac{3}{8}$ " x 0, but not exceeding $\frac{3}{4}$ " x 0.
- Altered screenings (top size not exceeding $2\frac{5}{8}$ " from which all of the 1" to $1\frac{1}{4}$ " top and $\frac{1}{8}$ " to $\frac{3}{8}$ " bottom coal has been removed).
- 22 - Screenings $\frac{3}{8}$ " x 0 and smaller.

MR. McELVANY sworn by the Chairman, who added: "The information that you may give us of which you have not personal knowledge will be information in which you have confidence. The opinions you express will be based on proper evidence."

EXAMINED BY Mr. Frawley:

Q Going to pages 9 and 10 and comparing those average costs with average realization, I just want to be sure that I understand. Now take in Table 3 in District No. 8 in 1940 the weighted average cost was \$1.90?

A That is correct.

Q And in 1940 in District No. 8 the average realization was \$1.87?

A That is correct, sir.

Q Now what does that mean?

A That means that on all the coal produced down there the average realization was 3 cents less than cost.

Q That is that the realization to Company A was very likely over cost and the realization to Company X was probably under cost?

A That is true, sir, and is the average realization of the 80,000,000 tons of coal produced in that district by all of the companies.

Q Coming then to the third table and that is the maximum prices. I am not quite able to follow it. Could you relate those two figures to something in Table 5, or is that possible?

A Well now, we will have to go back to District No. 1 on that.

Q What I should do to go right there is not take District 8 but take District 1?

A That is the District 1 price in 1940. The average cost of production in District 1 was \$2.14. Now the average realization was \$2.09.

Q Then let's get the maximum price.

A When you are taking 1940 you are taking the year in which maximum prices were established, on October 1, 1940, so that

average realization included part of the period of the year when maximum prices were not effective and the period from October 1 on when maximum prices were effective.

Q Perhaps we will take the first complete year, because I want to relate the three tables.

A All right, take 1941. In 1941 the cost of production of all the coal produced in District No. 1 was \$2.32. The average realization was \$2.34. Now that average realization was obtained by the coal producers in District No. 1 selling their coal, not under the prices set out in Table No. 1, that was the maximum price which was in effect in District No. 1 during the year 1940, and it was the application of the prices in Table No. 5 which brought about the realization of \$2.34 shown in Table No. 4.

Q And Table 4 simply tells us the maximum prices for District 1 for that period for all of the classes of coals in all of the sizes?

A That is correct, sir.

Q Now you will excuse me, I am sure, Mr. McElvany, for asking you something about the possibility of a new Guffey Act. Is it so that 70 percent of the bituminous coal producers favor legislation controlling the coal industry?

A That is true, sir.

BY COMMISSIONER McLAURIN: How was that determined?

A It was determined by the fact that when the Bituminous Coal Act was up for consideration before our Congress the committee which was appointed made a survey of bituminous coal producers in the United States and asked them to signify to the committee whether or not they favored re-enactment of the Bituminous Coal Act.

Q That is a Congressional committee counted heads?

A No, this was a committee of coal operators favoring re-enactment of the Act made this independent survey themselves, and asked if their names might be used in an exhibit to be presented before Congress.

BY MR. FRAWLEY:

Q There is no uncertainty about this figure?

A No, the figure was used before the House Committee hearing and 70 per cent of the commercial production of the country favored the re-enactment of the Act.

Q In other words, it is not 70 per cent of the operators, it is 70 per cent of the tonnage?

A That is true.

Q And it is also true that 70 per cent of the United Mine Workers favored it?

A That is true.

Q And is it true that the Truman Administration is on record as favoring some form of control?

A It was in the Democratic platform.

Q So most of the factors do point to some form of regulatory legislation?

A Well, that is my individual judgment, Mr. Frawley.

BY COMMISSIONER McLAURIN: There is a difference of opinion among operators, and I take it there is a difference of opinion amongst the very people that are signatories to this brief?

A Mr. Commissioner, the bituminous coal industry in the United States has never been noted for complete unanimity of views.

BY MR. FRAWLEY: We were told by one of the biggest producers that they were anxiously or impatiently awaiting re-enactment of the Guffey Act, so I think it is important to get before the Commissioners how you interpret the trend of opinion in the United States.

A There is no doubt in my mind.

Q Now the Chairman asked you about the percentage of prepared coal that is exported from the United States?

A He asked me about the percentage of prepared coal that is mechanically cleaned. That is a figure that I would have no method of computing.

- Q The reason I put that to you is that we were told, either publicly or otherwise, that most of the coal with which our largest Canadian producer has to compete, most of the American coal, came into Canada cleaned, and therefore it was a question as to whether this Canadian producer should be expected to put in mechanical cleaning equipment. I would like to have your observations on that proposition.
- A Of course by far the preponderance of bituminous coal that comes from the United States into Canada is not what we would call domestic coal. While there is large quantities, the bulk of the coal imported into Canada is for industrial use, which is what we denominate the steam sizes. That will perhaps be mine run coal or a nut coal or a slack coal, or perhaps if the industry is equipped with stoker equipment it may be in what we call a nut or pea size. Now to make any accurate approximation of the amount of that coal that is cleaned, it is almost impossible to determine. I can say this, that no figures have ever been published giving that information, but to the extent that the producers who sell coal in Canada have cleaning equipment, the coal coming into Canada from those producers would be cleaned, just the same as coal going to a consumer in the United States.

BY THE CHAIRMAN: I didn't notice whether you gave them or not. Have you any figures indicating the proportion of coals coming in: that is, whether it is steam coal or domestic coal or metallurgical?

- A Well now, I haven't put the figures into the record for that and the last year for which we have those complete figures of movement of coal by sizes is in the year 1937, which was the year the Bituminous Coal Division took as a typical year. I would be glad to go back and go over those records of the Bituminous Coal Division and furnish your Commission to the best of my ability with a statement of the sizes in which coal moved into Canada from the United States. Now of course

I can only do that as far as rail coal was concerned. We don't have a complete breakdown by sizes of movement of lake cargo coal, and I am not sure whether it would be helpful to you, because so much of your coal moves in by the lake cargo route.

BY THE CHAIRMAN: The reason I raised the question at all was I am informed by a gentleman who was in the United States not long ago that practically every ton imported from the United States for domestic purposes was cleaned coal at the mines.

A I would have nothing on which to base a contradiction of that statement.

BY MR. FRAWLEY: Would questions directed to each of the companies on your brief obtain that information for us?

A Well, as to the companies on this brief, first of all let me say for my own company, the Rochester & Pittsburgh Coal Company, the extent that we put that type of coal into Canada it is all mechanically cleaned. I know from my own experience that the coal which the Pittsburgh Coal Company would put in here would be mechanically cleaned. I would say the same thing for Consolidation Coal Company, Hanna Company, for certain of the coal produced by the North American Coal Corporation, and for certain of the coal produced by Valley Camp Coal Company.

Q Well, let me ask you this then: You know most about the business of Rochester and Pittsburgh. What would you say about the industrial coal which that company puts on the docks at Montreal and Toronto? How much of it would you say, even approximately, has been through mechanical cleaning equipment?

A Let me break it down in three ways: First of all, the by-product, special purpose coal which we send to Canada, all of which is mechanically cleaned. Of the coal which we send to Canada, what we denominate domestic use, I would say 80 per cent of that is mechanically cleaned; of our industrial coal perhaps 60 per cent. Now those are rough approximations.

BY COMMISSIONER McLAURIN: That is what you put on your docks here in Canada?

A Yes sir, all our produced coal.

BY MR. FRAWLEY: I would like to follow that up. What are the underlying reasons for that 60 and 40 per cent?

A Well, it is just this, that we ship coal from different mines for different purposes. All of the mines of the Rochester and Pittsburgh Coal Company do not have mechanical cleaning equipment at the mines.

Q And that is because you do not find that that is necessary?

A No, we would have had it; the war interfered. One hundred per cent of coal shipped by Rochester and Pittsburgh to Canada, as soon as we can get the equipment, will be mechanically cleaned.

Q So that the reason that only 60 per cent is cleaned that comes in now is not because you think competition over here does not demand it, you are now telling us that your company was altered in its plans because of the war?

A Yes, it is our intention to give all our customers the highest grade coal as quickly as we can get around to it.

BY MR. FRANKLEY - There is one more important bituminous brief and I think I will continue with that, and then call the anthracite people, although it may be tomorrow morning before I am able to do that.

Exhibit 215 - Brief on behalf of United States Coal Producing District Number 8, presented by R. E. Howe, President, Appalachian Coals, Incorporated.

MR. R. E. HOWE then read Exhibit 215, as follows:

My name is R. E. Howe. I live at Cincinnati, Ohio, U.S.A. I am President of Appalachian Coals, Incorporated, with offices in the Transportation Building, 307 E. Fourth Street, Cincinnati, Ohio. Appalachian Coals, Incorporated, is a marketing agency selling approximately 32 million tons of high-volatile bituminous coal annually. ACI's tonnage is distributed on the approximate basis of 37% for domestic use and 63% for various types of industrial application. The 37% of domestic use coal moves 71% all-rail and 29% via lakes; the 63% of industrial use coal moves 82% all-rail and 18% via lakes. This coal is produced entirely in what is known as District Number 8.

District No. 8 is made up of eight producing sub-districts in the Southern High-Volatile Coal Fields. These sub-districts are known as the Kanawha, Logan and Williamson in southern West Virginia; Big Sandy-Elkhorn, Harlan, and Hazard in eastern Kentucky; Southern Appalachian in Eastern Tennessee; Virginia, comprising the coal producing counties of southwestern Virginia. A map showing the outlines of the district and sub-districts, as well as certain other information, is submitted herewith and is marked Exhibit "A".

BY COMMISSIONER McLAURIN - District 8 is outlined in yellow?

A. Yes.

MR. HOWE continues brief.

District No. 8 is the largest bituminous coal producing district in the United States, and in 1944 produced 124,777,000 tons,

or 20% of the entire 620 million tons mined in the United States. The growth of this district's productive ability is demonstrated by the following tabulation showing output by years from 1937 to 1944, inclusive:

| <u>YEAR</u> | <u>TONS</u> |
|-------------|-------------|
| 1938 | 91,874,000 |
| 1938 | 74,487,000 |
| 1939 | 84,210,000 |
| 1940 | 97,696,000 |
| 1941 | 108,505,000 |
| 1942 | 121,510,000 |
| 1943 | 122,015,000 |
| 1944 | 124,777,000 |

It will be noted that District No. 8 in 1944 increased its production over 1939, which was the last year unaffected by the war in Europe, by 48%. The United States as a whole increased its production by 57% during the same period of time. These increases show the reliability and dependability of bituminous coal production in the United States under any emergency.

The vast expansion of production in District No. 8, and in the United States as a whole, was accomplished practically by existing mines, financed by private capital and entirely without government subsidies or assistance of any kind. Because of the vast undeveloped reserves in District No. 8 there is no geographical limitation on further increases in production.

The production record of District No. 8 during the war years was made despite a steadily decreasing labor supply due to the exigencies of war. This was largely made possible through increases in that proportion of production coming from mechanized mining. The trend toward additional mechanized production is still continuing, resulting in lower costs than would otherwise result.

The record of selling prices shows that reductions in the production costs of the coal mines of the United States have been largely passed on to the consuming public. Free competition between mines and between districts and between coal and other fuels will always be sufficient incentive to continue the trend towards increased economy to the consumer through increased efficiency in mining and preparation.

Wages paid the miners today in District No. 8 compare most favorably with any other industry within the states in which our mines are located. Indeed, the average hourly rate is the highest of any major labor group in the states comprising District No. 8. The standard of living in the mining communities is much higher. Good roads and automobiles have brought mining communities much closer to larger cities and towns. Prices, quality of merchandise, and merchandising methods in company stores today compare very favorably with similar merchandising establishments in much larger cities and towns outside of the mining districts. Good schools, churches, recreation centres, athletics, and highly developed character-building organizations such as the YMCA, YWCA, Boy Scouts, Girl Scouts, Campfire Girls, etc., offer all the advantages to young people in the mining communities which they can enjoy elsewhere. Better homes, better schools, better churches, and higher wages all have combined to bring about better living conditions, and a higher standard of living for the miner in District No. 8.

BY THE CHAIRMAN - How are the miners paid, by production or per diem?

A. Loaders are often paid by the ton. The datal men are paid by the day or hour. Some loaders are paid by the day also, where it is mechanized loading.

Q. In mechanized mining they are paid by the day?

A. Yes, Sir.

MR. HOWE continues Brief

In excess of 100 individually designated seams of coal lie within District No. 8, and these seams contain estimated reserves of 250 billion tons of high volatile bituminous coal --- sufficient for 2,000 years.

There are within the district approximately 600 rail mines which are operated by some 350 companies. The mines of District No. 8 employ some 85,000 miners. Their annual output is approximately 1,500 tons per man. Their daily output averages

six tons per man. 95% of the coal produced by these companies is machine mined, and some 50% of it is mechanically loaded. with resultant savings in cost.

95% of the production of the district is mechanically screened and prepared for the market with the latest and most versatile types of preparation equipment. The preparation of these coals has developed to a high standard of cleaning and of precision sizing. So proficient, in fact, have become these processes that the high-grade coals of district No. 8 may be said to be truly "manufactured products". These coals are "fitted" to the job they are to do in the plant they are to serve. Intelligent selling and efficient engineering assure consumers that the proper types, as well as the proper sizes of coal are applied to the job at hand. This fact assures efficient and effective utilization. So elaborate are some of the preparation plants that their costs now far exceed the original investment in the mine proper. As a result, the inherent qualities of the product are further enhanced or improved for economical consumption in many diversified uses.

The coal seams of district No. 8 are acknowledged by the trade to contain the most satisfactory quality of high-volatile bituminous coal in the United States. Their versatility as to use is demonstrated by their great demand for domestic, steam, by-product, chemical processing, and other special application. Research for other uses is being aggressively pursued by the industry.

On a percentage basis, the following tabulation lists some of the major uses for District No. 8 coal during 1944; the type of haul is also shown:

| | <u>ALL-RAIL</u> | <u>TIDE</u> | <u>LAKE</u> | <u>TOTAL</u> |
|--------------------|-----------------|-------------|-------------|--------------|
| By-product | 12.2% | 2.8% | 6.7% | 21.6% |
| Railroad Fuel | 14.8% | | 0.2% | 15.0% |
| Utilities | 7.3% | | | 7.3% |
| General Industrial | 17.4% | 1.8% | 6.5% | 25.7% |
| Domestic | 22.0% | | 6.6% | 28.7% |
| Government | 1.7% | | | 1.7% |
| TOTAL | 75.4% | 4.6% | 20.0% | 100.0% |

The firm structure of District No. 8 coals withstands rough handling in transportation by rail and by lake. Thus, the block, lump, and double-screened sizes are transported to destination with a minimum of degradation.

The quick-igniting as well as long-burning qualities of the domestic sizes make them especially desirable to regions which have severe climatic conditions, whether they be hand fired or mechanically fired.

The most acceptable household stoker coals in the Western Hemisphere are produced in District No. 8. Because of their high quality and precision sizing, their use results in complete customer satisfaction.

For industrial purposes, whether hand or mechanically fired, District No. 8 coals are likewise eminently satisfactory and economical to use, because of their low ash, low sulphur, high b.t.u. content, and wide range of ash softening temperatures. Coke made from these coals for both by-product and domestic use is recognized as the most satisfactory available. The chemical industry of both the States and of the Dominion is a large user of these coals in primary chemical processes. The use for this purpose is greatly on the increase. The yield in gas production from these coals is also quite profitable.

There is no economical substitute for these high-quality coals. In fact, any attempt to substitute coals of lesser quality would raise insurmountable difficulties in many existing heating and power plants where the equipment has been designed for use of high-grade coals or where age of the plant or over-loading now requires high-grade coals. These conditions are widely prevalent in the Dominion of Canada as well as in the United States, and any attempt to force consumers to use coals of lesser quality will inevitably result in saddling a tremendous investment on a great many coal consumers. This investment might be so great as to justify the conversion of the plant to other fuels, which would lose the business for coal altogether.

While it is always desirable to design plants to burn the widest possible range of coals available at the point of consumption, it is also well recognized by competent engineers that a considerably lower initial investment in plant and equipment will obtain higher efficiencies with high-grade coals than that required to burn coals of a wide range of quality. Even plants originally designed to burn lower-quality coals often find it more economical to burn high-grade coals except where the delivered prices are entirely out of line because of excessive transportation charges. On the same principle, many plants find that over-all savings supposedly effected through the use of lower-grade coals with lower-delivered prices are often deceiving when the relative use values are accurately determined.

According to the Ore and Coal Exchange, a total of 25,722,114 tons of District No. 8 coal were shipped via the Great Lakes to United States and Canadian points in 1944. Total United States trans-lake shipments during the same year amounted to 55,491,459 tons. District No. 8's shipments, therefore, amounted to 46.4% of this total.

In 1944 Canada imported 24,513,527 tons of bituminous coal. Of this total District No. 8 shipped by rail movement approximately 433,000 tons, and by trans-lake 4,715,000 tons. Therefore, District No. 8 shipped to Canada during 1944 a total of approximately 5,150,000 tons of bituminous coal. Percentage-wise, these Canadian shipments from District No. 8 represent 4% of the district's total output; 20% of the district's total lake movement; and approximately 20% of the bituminous coal imported by Canada during 1944.

Using the figures of our Solid Fuels Administration, District No. 8 shipments to Canada last year were distributed for the following purposes and for storage for further distribution in the percentages shown:

| | |
|------------------------|-----|
| Coke and Gas use | 40% |
| Domestic use | 22% |
| General Industrial use | 35% |
| Railroad Fuel | 3% |

The Provinces of Quebec and Ontario, according to the latest available information, contain approximately 62% of Canada's population, and they account for from 70% to 75% of the Dominion's industrial coal and coke consumption. These highly developed and densely populated areas of Central Canada have always depended upon, and, for sound economic reasons we feel should always depend upon imports of United States bituminous coal, a major portion of which comes from District No. 8.

According to the Ore and Coal Exchange, District No. 8's trans-lake shipments to Canada during 1944 moved in substantial volume to some ten Canadian ports on Lake Huron, to eight ports on the St. Clair River, Lake St. Clair and Detroit River, to six Canadian ports on Lake Erie, as well as to various ports further east. It is our understanding that approximately 75% of this coal goes to the Province of Ontario, 13% to Western Quebec, and 11% to Eastern Manitoba.

The ready availability of District No. 8 coal to the Provinces of Ontario and Quebec from a geographical standpoint is self-evident. The low transportation charges from District No. 8 mines to the Canadian receiving docks is especially advantageous. So close is District No. 8 that it may be considered as lying adjacent to Central Canada, as is demonstrated by the map submitted herewith and marked Exhibit "B". For instance, the approximate centre of producing District No. 8 is only 345 miles from Toledo, Ohio, to which point major tonnages of United States bituminous coal move for trans-lake shipment to Central Canada. As an example, Toronto, Ontario via Toledo involves a total haul by rail and lake of only 638 miles. To a point as far away as Port Arthur the distance approximates 1,000 miles. Additional examples of mileages from the approximate centre of District No. 8 and the transportation charges to various Canadian receiving docks via Toledo are shown in the following tabulation:

DISTANCES AND TRANSPORTATION CHARGES
FROM DISTRICT NO. 8 MINES TO CANADIAN PORTS VIA TOLEDO

| <u>TO.</u> | <u>MILES</u> | <u>SELF-UNLOADER</u> | <u>BULK FREIGHT</u> |
|----------------|--------------|----------------------|---------------------|
| Windsor | 399 | \$2.31 | \$ |
| Port Stanley | 488 | 2.41 | |
| Port Maitland | 568 | 2.45 | |
| Port Colborne | 582 | 2.47 | |
| Hamilton | 640 | 2.70 | |
| Toronto | 641 | 2.70 | |
| Little Current | 6.87 | | 2.55 |
| Byng Inlet | 6.91 | | 2.55 |
| Michipicoten | 8.53 | | 2.40 |
| Port Arthur | 1005 | 3.10 | 2.45 |
| Montreal | 1009 | | 3.55 |

In comparison with these distances and charges, we draw your attention fact that great quantities of District No. 8 coal move to Milwaukee, Wisconsin from Toledo, a distance of 965 miles by rail and lakes. Huge quantities of the district's coal move to the ports of Duluth and Superior at the extreme north-western end of Lake Superior, a total haul of 1,123 miles from the mines of District No. 8. From these docks and many others in the Northwest this coal moves by additional rail haul off-dock to final destinations westward. It is the low transportation costs, and the economy, efficiency, and satisfaction with which District No. 8 coals can be used that create the demand for them at such distances from the mines in preference to lignite and the less-satisfactory midwestern coals. The following tabulation shows total distances from the mines to representative United States ports, together with transportation charges thereto:

DISTANCES AND TRANSPORTATION CHARGES
FROM DISTRICT No. 8 MINES TO UNITED STATES PORTS VIA TOLEDO

| <u>TO</u> | <u>MILES</u> | <u>SELF-UNLOADER</u> | <u>BULK FREIGHT</u> |
|-------------|--------------|----------------------|---------------------|
| Green Bay | 904 | \$ 2.75 | \$ 2.50 |
| Houghton | 953 | 3.05 | 2.45 |
| Milwaukee | 965 | 2.75 | 2.55 |
| Chicago | 1030 | 2.87 | 2.55 |
| Ashland | 1078 | 3.10 | 2.45 |
| Two Harbors | 1103 | | 2.45 |
| Duluth | 1123 | | 2.45 |

BY MR. FRWLEY - You don't think salesmanship has anything to do with getting that coal into those far places?

A. We do our best.

BY COMMISSIONER McLAURIN - That is total transportation, rail and lake?

A. Yes.

Q. Consolidated?

A. Yes.

Q. Rail costs and water costs consolidated?

A. Yes.

MR. HOWE continues brief

Availability, when needed, of sufficient high-grade bituminous coal for the Central Canadian Provinces, is at times highly dependent upon weather conditions. Both production and transportation are considered from this aspect of availability. Due to the natural conditions and a favorable geographic location southward, the mines of District No. 8 very seldom suffer to any major extent because of adverse weather conditions. The transportation to Canadian markets is arranged in volume for summertime movement, so it may be said that when winter comes this coal "is in Canada's backyard", needing only short haul transportation from docks to consumer.

The mines in District No. 8 are located on five large trunk-line railroads - C&O, L&N, NYC, N&W, and Southern.

Those roads are among the most reliable in the United States and their service and car supply is such that even during the recent periods of war stress we have experienced no transportation difficulties. As you already know, these delivering railroads have invested many millions of dollars to provide modern dumping and loading facilities of sufficient capacity to take care of Canadian demand as well as of our own. The C&O docks at Toledo alone during 1944 dumped for Canada's account approximately 2,250,000 tons of coal.

BY MR. FRAWLEY - Is the implication there that those C&O docks were constructed with the Canadian market in mind as much as their own American markets?

A. All markets. In our minds I don't think we distinguished between Canadian and United States mines. They are all friends and all customers.

Q. But what I mean is that those docks at Toledo -- they are large and efficient docks?

A. Yes.

Q. And they were built with Canadian business in mind as well as business to the upper lake ports?

A. No doubt.

MR. HOWE continues briefly.

A vast fleet of coal-carrying vessels assures adequate and timely deliveries to Canadian receiving docks.

The freight rate from District No. 8 mines shipping major tonnages to lower lake dumping ports is \$1.91 per net ton.

90% of District No. 8 coal moves to the Dominion of Canada via lakes during the season of navigation which is generally April 1 to November 25. This means that the Canadian movement is very heavy during the season of lightest demand from our all-rail customers. From the standpoint of price, selection, service, and availability, this is a distinct advantage to the Canadian market. During severe winter weather when customers receiving coal all-rail are handicapped by abnormal weather conditions, our Canadian customers have their coal on docks in ports within the Dominion of

Canada. These ports are so distributed as to supply the larger consuming points with either a truck haul or a short rail haul from the docks.

District No. 8 coals are imported into the Dominion of Canada by a relatively small number of well-equipped, high-grade, financially-sound Canadian companies. They have splendid facilities, excellent connections in the United States, and a long record of first class service to the consuming public.

Had it not been for the distribution system in the Dominion of Canada and their connections with reliable producing companies in the United States, the greatly expanded coal requirements of the Dominion of Canada during the war could never have been met. Your attention is invited to the fact that for the past two years when the United States mines have been under pressure, Canadian consumers received the same coals at the same prices and in the same relative volume as United States consumers receiving coal by the Great Lakes. Through the medium of Solid Fuels Administration Regulations Nos. 23, 24, 25, 27 and 29, they actually enjoyed preference over similar consumers in the United States which were served all-rail, or by rail and tide. In other words, there has been no differentiation whatsoever between the Canadian consumer and the United States consumer insofar as coal requirements from the United States mines are concerned.

Over a long period of years District No. 8 producers, working through and with their Canadian connections, have built up and served a very valuable market in the Dominion of Canada. Canadian consumers have paid the same prices --- neither more nor less than than similar United States consumers. The sound merchandising policies of District No. 8 producers and their Canadian connections have literally and figuratively fitted the coal to the consumers' equipment and requirements. This could not have been done except on the unassailable ground of sound economic values to the consumer. Therefore, we submit that the purchase of coals from District No. 8 has been advantageous to the Canadian consumers as its sale has been to District No. 8

producers. Otherwise, District No. 8 coals would never have found the favorable reception in the Canadian market that they enjoy today.

The industrial and domestic requirements of the Dominion of Canada are as varied and as particular as they are in, say the State of Michigan. District No. 8 produces coal of the widest range of burning characteristics, size, size consist, chemical analyses. All of these coals are available and are used by Canadian consumers because they fit their requirements.

Any change in transportation charges, duties, exchange or subventions which would tend to disturb the flow of well-selected coals to the consumer will inevitably result in a tremendous dislocation of fuels and enormous capital expenditures by Canadian consumers, and possibly the loss of millions of tons of coal business to both United States and Canadian producers. Those factors which we, as District No. 8 producers, can control will not be changed. If those factors which the United States Government only can control are threatened, we shall certainly bring all of the influence in our power to bear on our own government to prevent such changes which are fraught with disaster to United States producers and to Canadian consumers alike. Any such changes in transportation conditions which might jeopardize our relations with our Canadian markets will certainly be opposed with all of the power at our command.

The other factors which might disturb the normal flow of District No. 8 coals to logical markets in the Dominion of Canada are under the control of the Canadian government. We, of course, would be presumptuous should we attempt to make any representations to this Commission or to the Canadian government direct on this score. However, impediments to the free flow of all commodities, including coal, between the United States and the Dominion of Canada are matters of governmental policy established by our respective governments and usually arrived at through negotiations between the Canadian government and the government of the United States. Should any changes be contemplated in this

category, we feel we could not be criticized for making the most forcible representations possible to our own government in an attempt to protect established markets abroad.

If we correctly interpret the intent of agreements at the Dumbarton Oaks conference, our respective governments have in mind a relaxation of restrictions to trade between our two countries rather than maintaining or increasing our present restrictions. We sincerely trust, if this is to be the policy, bituminous coal flowing from our mines to your consuming points will get the benefit of more favorable conditions in the future than it has had in the past. We, of course, feel this would be to the advantage of the Canadian consumer as well as to the United States producer.

United States coals are produced under the United States system of free enterprise from properties developed, owned, and operated by private capital and through individual initiative. We ask only to be judged and allowed to compete in your markets on the basis of ability to serve Canadian consumers to the best possible advantage to them without arbitrary restrictions or handicaps beyond those imposed by mining and transportation conditions at the source.

In conclusion, I submit there seems to be every reason why the District No. 8 producers and the Canadian consumers of District No. 8 coal have a mutual interest in maintaining the flow of this coal on the most favorable basis possible, and that this movement should increase with the intensive industrial development which now seems assured in the Dominion of Canada. We of District No. 8 assure you that we shall leave no stone unturned so far as it lies within our power to merit the favorable consideration of Canadian consumers and protect with all of the means at our command the excellent relations which have existed throughout the years and which we feel confident should and will be continued for many years to come.

Respectfully submitted,

(Sgd) R. E. Howe
President, Appalachian Coals, Incorporated.

R. E. HOWE (Sworn)

BY THE CHAIRMAN - Have we available to us the importations of the coal, I mean in our Statistical Branch, the importations of coal from the United States, district by district?

BY MR. FRAWLEY - I think that is exactly some of the material that Mr. Lamb has come from Washington to give us.

BY THE CHAIRMAN - I would like to get that information, if possible, for the year 1941 and for the year 1938.

BY MR. FRAWLEY - Importations of coal from all of the different producing areas which exported to Canada.

BY THE CHAIRMAN - Yes. 1938 was the beginning of our subventions.

EXAMINATION OF MR. HOWE BY MR. FRAWLEY

Q. On page 6 you raise what strikes me as being an interesting question. I have got the idea that the all-purpose combustion installation was by far the most efficient and economical installation. Now you have sort of taken exception to that. You think the installation that burns the best quality coal is the best.

A. Yes, and the most economical. Any boiler plant that burns the lower grade coals has to have more grate surface, more steam surface and handle more coal and equipment, whereas with higher grade you don't need the same grate surface or high pressure boiler, and the less coal you have to burn in a plant on account of its quality and lower ash, the less expensive it is.

Q. The people advocating the all-purpose combustion might be a little franker and say put in a combustion unit that will burn our lower grade coal.

A. Maybe.

Q. That is the conclusion I came to from the observation you made. You say if a man has an installation that will burn a high quality coal, he does not have to put in an installation that will let him burn that and also a lower grade coal?

A. I see no advantage.

Q. So long as your coal is always available to him?

A. We expect that.

Q. Do you see any fear that there will be a diminution in your ability to export to Canada throughout the years?

A. I did mention 250 billion tons of reserves, and our companies are all well financed, well equipped, and keep up with the times, and District No. 8 coal will keep up its production as long as the age requires.

Q. You have a compilation on page 7 showing that 35% of your coal went into general industrial use in 1944 and that was all, what is commonly referred to as "high quality coal"?

A. This is all district No. 8?

Q. That would compete with coal from Fairmont District and Western Pennsylvania?

A. Yes, it would compete with Western Pennsylvania, Central Pennsylvania, some of the coals in Illinois.

Q. And some Nova Scotia coal I suppose?

A. I presume so. I don't know much about Nova Scotia coal; in fact I don't know anything about it.

Q. That looks like a pretty big percentage of this particular coal to go into industrial use. Do you find it hard to get this coal of yours into general industrial use?

A. No, that is probably all we can get up here.

Q. Because of the distance?

A. Yes.

Q. And is this a washed coal generally?

A. Some is, and some not.

Q. About what percentage of that 35% would be washed?

A. I wouldn't know. I don't know that I have any figures on it.

Q. Do you think you would be able to get even something approximate for us on that?

A. I think so. But I might say that all they need is cleaned.

Q. And what comes in not cleaned, is why?

A. Because it does not need cleaning.

Q. Because it is clean enough as it comes out of the mine?

A. Yes.

Q. You have an expression of dislocation. You say on page 12 - "Any change in transportation charges, duties, exchange or subventions which would tend to disturb the flow of well-selected coals to the consumer will inevitably result in a tremendous dislocation of fuels". Just what do you mean by that?

A. That would mean that if anything happened that we could not compete with other coals coming to this country, either yours or from somewhere else, prices would go too high or something of that sort, we might lose that business through other forms of fuel, and also your Canadian mines might lose it.

Q. It might be lost to the industry altogether?

A. Yes.

Q. In Canada what do you find is the most effective competition you have to meet? What is the most important factor in the competition?

A. Well we have some difficulty with Western Pennsylvania on freight rates. They have an advantage over us.

Q. The advantage of Western Pennsylvania from the standpoint of freight rates?

A. Yes. Just as good coal.

Q. How about the Canadian coal, what is the particular element in the competition there?

A. I don't know.

Q. Would you say the gift of Canada's freight assistance would have something to do with it?

A. You mean if they subsidized it?

Q. Assuming that the only way Nova Scotia coal can get into Ontario, say Hamilton or Toronto, was by virtue of government assistance.

A. If they can lay down their coal in Toronto at the same heat value we do, or less, that would be a competitive factor.

Q. If they could not get it in there at all except with government assistance on the freight, then obviously that is the competition. That is their biggest factor in competing against your coal?

A. That is right.

Q. That follows, does it not?

A. Yes.

Q. On page 13 you say that you trust you will get the benefit of more favorable conditions in the future than you have had in the past. What do you mean by that?

A. Lower cost to mine for one thing. Maybe we might get some help on our transportation charges; improvement of our conditions in mines.

Q. You mean things within your own control?

A. Oh yes, absolutely.

BY THE CHAIRMAN - He also suggests within the control of this country; hopeful of getting better conditions established here. They would like to have the duty lowered from 75¢ to 60¢.

A. That would be very helpful.

BY COMMISSIONER McLAURIN - You want the people of this country to remain as sane as possible, and get the high tariff republic out of the United States.

EXM. BY MR. FRAWLEY (continued)

Q. If you thought that this 75¢ duty was somewhat of a barrier and keeps some of your District No. 8 coal out of Canada, I don't think there would be any harm in your saying so.

A. Undoubtedly it does, there is no question about that.

BY THE CHAIRMAN - I don't think that was the intention up until 1930 any tariff that coal carried was for the purpose of enriching the exchequer of this country. In 1930 or 1931 there was an effort made to increase that, and the people here were almost assured that we would have no American coal here at all.

EXM. BY MR. FRAWLEY (continued)

Q. You are also the guardian genius of Appalachian Coals, Incorporated. Would you make a statement of the purposes and functions of that organization?

A. I could make that story as long or as short as you require it. The main purpose is to sell more coal and to sell it more intelligently. It is to the advantage of each producer; we try to work to the advantage of our producers in every way. We have

a contract with the coal producer to be the exclusive agent for selling their coal, and we make a contract with a selling company, which is termed a sub-agent, to sell that coal of that producer under contract with us, under the terms, prices, and so forth that we determine. Now there has been some talk around the country that we are fixing prices, but that is not true. You can't fix a price on coal and make it stay. You have to have some price which you ask for your product, no matter whether coal, or shoes or what, and that is the price we think we should get, but often times we don't get that much on account of competition. We have a contract to sell all the coal possible, and if we find that competition from someone else in District 8, or from some other producing area, or oil, or gas, requires us to meet that competition, we do that. The Sales Agent that is handling it has to get the approval of our office, just the same as a salesman on the road who meets competition, he has to refer it to his Sales Manager before he sells it.

BY THE CHAIRMAN - Your organization has been declared by the highest tribunal in the United States, as a legal organization?

A. When we first started they said we were a monopoly and against all public interests, and everything else.

BY COMMISSIONER McLAURIN - Who constitutes your partnership?

A. We have at present 25 coal producers. Let me finishing answering the Chairman's statement. After fighting it through the lower courts, we took it to the Supreme Court of the United States and they found in our favor eight to one.

EXM. BY MR. FRAWLEY continued)

Q. But they put a bit of a string on their judgment, didn't they?

A. That decision is, in layman's language, that as long as we conduct our business as we said we would (and they can come in and investigate us whenever they see fit), and we have been very careful.

Q. And there has been no interference with you by anybody?

A. No.

BY COMMISSIONER McLAURIN - What constitutes your partnership?

A. We have about 40 coal producers, who have about 100 mines.

Q. All in District No. 8?

A. Yes.

Q. And your partnership can be added to?

A. By making new contracts.

Q. With a new operation?

A. Yes. The producers whose coal we sell are the owners of the company. No one else can have stock in the company and we will not sell the coal of any company that does not have stock except as an agent. Our Board of Directors consists of our holding companies whose coal we sell.

Q. And Appalachian coal has a charge per ton?

A. Yes, for doing that. Then we do a lot of other things that an individual company cannot afford to do, in the way of engineering work, publicity, natural gas smoke abatement discussions, and trying to improve the use of equipment. We have men in research assisting in that work, and we also send out engineers when a plant is having trouble with their coal. Sometimes we can be of assistance there. We have a great many contacts with the retail coal industry all over the country, assisting them in their problems.

Q. Do you do the actual selling by way of interesting the prospective purchaser, first locating the prospective purchaser and breaking down his resistance in buying?

A. We do that through agents.

Q. If one of your 45 members might have someone soliciting orders for his mine?

A. We try to keep up with new plants that are being built and advise everyone about those plants. We sell all the coal. If an agent has sold an article for the principal, the principal has sold the article.

Q. How much is your total tonnage?

A. About 32 million tons.

Q. Some of those mines might have a potential of another million?

You have a potential capacity that might be more than 32 million?

A. Oh yes.

Q. And are all those producers completely and wholly dependent on the efforts made by you as to whether the coal they produce will be sold?

A. On our efforts, together with the agent who is selling their coal.

EXM. BY MR. FRAWLEY (continued)

Q. This is the crux of A.C.I., I think. Take the Island Creek Coal Company, what is the name of the company that takes the coal out of the ground?

A. Island Creek Coal Company.

Q. And the Company that sells?

A. Island Creek Coal Sales Company.

Q. Which is a member of A.C.I.?

A. Island Creek Coal Company.

Q. But the one that sells the coal is Island Creek Coal Sales Company?

A. They are our agents.

Q. But they are directed by Mr. Glover?

A. Yes.

Q. He still sells the Island Creek coal?

A. Yes.

Q. And his staff of agents all over the country?

A. Yes.

Q. There are not salesmen running out from your office in Cincinnati?

A. No.

Q. So all of these producing companies still have their sales agents and sales departments?

A. Yes.

Q. And they sell every ton they can?

A. Under the rules and regulations laid down by us.

Q. Every invoice has to go through your organization?

A. Yes, and every order, and we have to sign the contract.

Q. That is why you have the big organization you have down there?

A. That is correct.

Q. A price is established at which certain grades of coal for certain areas, or of certain mines, are sold?

A. Right.

Q. In other words, by common consent the price at which the coal is sold is the price agreed on by the whole A.C.I. organization?

A. Yes.

Q. But the salesman or agent tries to sell it?

A. Yes.

Q. And if he finds in a particular place he may have to come down 5¢?

A. He calls up our office and says he can get this piece of business at a nickle less, and we know everything that is going on in our own organization by the invoicing and orders, and so on, and if none of our other producers are selling that same company at the full price, we tell him all right, get it, take the business.

Q. And knock off the five cents?

A. Yes, but if our other producers are selling that company at the full price, we tell him to lay off of it.

Q. And sometimes you tell him to go back and be a little tougher, to go and stick to his price, and he will probably get the business?

A. That often happens.

Q. Hence the success of A.C.I.?

A. Yes.

BY COMMISSIONER McLAURIN - What provision is there in the contract if an agent violates the agreement? Expulsion?

A. No, there is nothing we can do except cancel his contract, but we don't have any trouble.

Q. But you have to have provision for it?

A. We can't fine him, or anything. Our only recourse is to

cancel his contract.

Q. You are not very much unlike a board of Insurance Underwriters that control a whole group of Insurance Companies?

A. Yes.

BY MR. FRAWLEY - Or not much unlike the Canadian Press.

Q. The price is only one part of it.

Q. You get information on the industry in great detail?

A. We get advance information of what is going on, and we also know whether this industry is on the increase and is going to be developed more this year than last, or whether lumber mills are going down, or cotton mills, and whether the market is good here and bad there, and we keep them posted, and also other fuels.

Q. You look out for possible conversion of other fuels?

A. Yes. The price phase is just one of a dozen important activities.

Q. Is it so that your Association is restricted to producers in District No. 8?

A. Yes.

Q. Is there any reason for that?

A. The reason, if there was one when the company was formed 14 years ago, was that that was all they thought they ought to have of competitive coals. They didn't want to take in a lot of coals that they would have to compete with that were not comparable and so on. I don't know of any other reason. I don't remember why it was restricted to District No. 8 except that it was a normal restriction.

Q. Do you ship coal to New England?

A. Yes sir.

Q. Via tide water?

A. Yes.

Q. Do you have any capital in coke plants?

A. We don't handle any. We have a few contracts with captive companies,

Q. Do you own any boats engaged in lake traffic?

A. We do not.

Q. How do you control these Canadian people that sell some of this District No. 8 coal?

A. We can't control them.

Q. F. P. Weaver is an agent for Island Creek?

A. The only control we have is that we tell Island Creek what to ask Weaver for the coal.

Q. And then Weaver sells it to some institution in Quebec?

A. That is out of our province.

Q. You can do it so long as your member was selling it?

BY COMMISSIONER McLAURIN - Yes, but once the property goes from your member?

BY MR. FRAWLEY - Is there not a weakness there. All the coal that goes into Canada from Island Creek has to go through Weaver?

A. Yes.

Q. It breaks down completely on this side of the line?

A. They buy the coal and what they do with it is beyond us.

Q. But you are content to tell Island Creek what they will sell to Weaver at?

A. Yes.

Q. And you have discharged your duty to your group when you do that?

A. Yes.

BY COMMISSIONER McLAURIN - Some of these Pittsburg fellows are making wry faces when you talk of the good qualities of District No. 8 coal.

A. If you don't brag on your own no one else will.

4:20 P.M. HEARING ADJOURNED UNTIL 10:00 A.M.

THURSDAY, OCTOBER 4th, 1945.

THE ROYAL COMMISSION ON COAL

Ottawa, Ont., Thursday, Oct. 4th, 1945.

VOLUME XLVII

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Ottawa, Ont., Thursday, Oct. 4th, 1945.

VOLUME XLVII

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ROYAL COMMISSION ON COAL

Ottawa, Ontario,
October 4, 1945.

The Royal Commission on Coal convened in the Court Room of the Board of Transport Commissioners, Ottawa, Ont., on Thursday, October 4th, 1945, at 10.00 A.M.

PRESENT:

Hon. Mr. Justice W. F. Carroll, Chairman
Hon. Mr. Justice C. C. McLaurin, Commissioner
Angus J. Morrison, Esq., Commissioner
J. J. Frawley, K.C., Commission Counsel
Robert D. Howland, Secretary.

BY MR. FRAWLEY: Mr. Earnest will present the first brief this morning. Mr. Earnest, you live in New York?

MR. F. W. EARNEST: My home is in Philadelphia, sir. I am in New York most of the time.

Q And you are executive director of the Anthracite Institute?

A That's right.

Q And you are here this morning to present a submission on behalf of the American anthracite industry?

A Yes sir.

Q Would you proceed to do it?

Submission marked:

Exhibit 216 - Brief of the Pennsylvania
Anthracite Industry of the
United States

MR. EARNEST proceeds to read Exhibit 216:

PENNSYLVANIA ANTHRACITE CAN SUPPLY
CANADA'S POSTWAR REQUIREMENTS OF HARD COAL

That the Pennsylvania anthracite producers are able to supply in abundance Canada's needs for fuel is proven by the record during the war. In 1938, the year before the war, Canada

imported a total of 3,723,953 net tons, of which Pennsylvania supplied 1,977,002 net tons, or 53.1%, and all other sources, 1,746,951 net tons, or 46.9%. (See Tables 1 and 2). In 1944 Canada imported 4,435,891 net tons, of which Pennsylvania supplied 4,161,820 net tons as against 274,071 from all overseas sources, or 93.8% as against 6.2%. In other words, in 1944 Pennsylvania alone supplied the Dominion of Canada with 437,867 more tons than it imported from all sources in 1938 immediately before the war. Freed of wartime restrictions on labor and materials used in mining and given a free market without discrimination in Canada, the Pennsylvania Anthracite Industry can without difficulty fill all anticipated postwar fuel requirements of Canadian domestic consumers.

The Canadian market is one of the largest users of Pennsylvania anthracite. During the coal year just concluded, the Dominion received more Pennsylvania anthracite than any of the United States except New York, Pennsylvania or New Jersey. The city of Toronto was the third largest user of Pennsylvania anthracite on the North American continent, exceeded only by New York and Philadelphia during the last coal year. Montreal was fifth.

EQUALITY OF TREATMENT OF CANADA

The Pennsylvania Anthracite Industry has always accorded Canadian consumers the same treatment granted to consumers in the United States. In fact, since Pearl Harbor, Canada has received a greater proportion of our output than in any year since 1920. Even under stress of present wartime conditions, when all production and transportation agencies are strained to the limit, Canada is being accorded a just and equitable share of available anthracite from Pennsylvania.

Canada requested the Anthracite Industry and the Solid Fuels Administration for War in Washington to protect her supplies in the critical years of interruption of overseas sources. This request was granted willingly, despite the difficulties

which the Industry faced at the time of the request. Further, the Industry has, throughout the war years, continued to honor its commitment to the Dominion, even though its problems in production and equitable distribution have increased manifold since that commitment was made. Canada has benefited greatly as a result. (See Table 2).

ABILITY TO SUPPLY IN WARTIME

During the war Canadian householders have been largely dependent upon Pennsylvania anthracite for their hard coal requirements.

Since the outbreak of present hostilities, production has been stepped up to a level not attained in fourteen years, despite a 20% loss in manpower in Pennsylvania mines to the war services. With return to more normal labor conditions, there will be an ample supply of Pennsylvania anthracite to meet all Canadian and United States requirements.

Even in the face of loss of manpower, the most adverse weather operating conditions in years and the tremendous movement of essential war goods, the Canadian and United States railroads have maintained delivery of Pennsylvania anthracite to Canadian cities with a high degree of efficiency.

It is significant that there was no major interruption of the anthracite supply because of labor trouble for twenty years prior to May, 1945. The regrettable suspension at that time was symptomatic of wartime conditions and labor unrest generally in the United States.

PROXIMITY OF SUPPLY AND DEPENDABILITY OF DELIVERY

The anthracite mines are located in nine contiguous counties in Eastern Pennsylvania, and are served by nine Class I steam railroads, six of which directly connect with Canadian lines at the Niagara or St. Lawrence frontiers, or reach lake docks which afford further water movement to Canadian ports. The distance to Black Rock is only slightly less, and that to Rousses Point only slightly more than 300 miles from production

centers. There is thus assured regular, rapid and dependable all-weather delivery.

AMPLE RESERVES FOR FUTURE GROWTH OF BOTH COUNTRIES

Reserves of Pennsylvania anthracite are wholly adequate to serve the normal growth in needs of the populations of both the Dominion and the United States for generations to come. The U. S. Bureau of Mines and the Geologist of the Commonwealth of Pennsylvania agree that reserves are ample for 150 to 160 years at recent average rates of production and known methods of economical recovery.

PENNSYLVANIA ANTHRACITE DOES NOT COMPETE WITH CANADIAN COAL

Pennsylvania anthracite is not in any real competition with Canadian-produced coals. Canadian coal mines are located at such great distances from Pennsylvania anthracite's major and normal markets in Canada that it is not economically sound for the Canadian producers to ship to those marketing areas.

DEALER PREFERENCE

Eastern Canadian retail dealers are accustomed to handling Pennsylvania anthracite. Their facilities are largely designed to receive rail shipped anthracite, delivered over trestles or into silos, with less breakage than results from transfer of overseas coals from vessels at Canadian ports to smaller lake vessels or to rail or trucks for further inland movement. Then, too, because of the year around availability of Pennsylvania anthracite supply and delivery, the need for storing large inventories of overseas coal for winter consumption is minimized.

CONSUMER PREFERENCE

Canadian consumers have demonstrated their preference for Pennsylvania anthracite over a long period of years. While this has been due in part to a realization of the proximity of the producing regions and the reliability of supply and delivery, it is primarily due to the fact that they have also come

to recognize the uniform high standards of preparation, cleanliness and sizing of the product. The operators have spent many millions of dollars in recent years to achieve and maintain such standards.

Canadian consumers have become accustomed to Pennsylvania anthracite, are familiar with its burning characteristics, and their equipment is largely designed to burn Pennsylvania anthracite.

OPEN COMPETITION

Almost all of Canada's overseas anthracite has been imported by two firms. In contrast, 67 wholesale firms imported Pennsylvania anthracite. Thus, no single Pennsylvania anthracite producer or wholesaler or any group of them dominates the Canadian business. Practically all the production of Pennsylvania anthracite is available to the Canadian market through established sales offices and representatives in the Dominion who have long and firmly established contacts with Canadian dealers or wholesale firms.

This results favorably to Canadian consumers, first by insuring competitive marketing with resultant price benefits and second, by providing Canadians with a wide latitude in the choice of the type of Pennsylvania anthracite which they prefer to buy and burn. Some anthracites are slower burning than others, some have ash fusion characteristics preferred in certain parts of Canada, some are trade-marked and some are not. But all of them are high quality Pennsylvania anthracites and all are available to Canadian consumers.

PRESENT COST OF COAL

While the mine costs of anthracite produced in Pennsylvania have increased during the period of the present war, such increases have been almost entirely attributable to increases in wage rates necessitated by higher costs of living. These increases have been reviewed and approved by United States governmental agencies having appropriate jurisdiction. Pennsylvania

anthracite is sold to Canadian retailers F.O.B. mines at the same price it is sold to retailers in the United States.

RECIPROCAL BENEFITS TO LABOR

Canadian railways receive large portions of the through freight rates on shipments of Pennsylvania anthracite beyond the border, which revenues go toward paying taxes and employees' wages. In contrast, overseas shipments are dumped on docks and largely moved to points of consumption in trucks, or by smaller vessels to Lake Ontario, where trucking back from the waterfront again deprives the Canadian rail carriers of any but a very small portion of the revenue from the traffic.

Labor on both sides of the border spends a substantial proportion of its wages in purchasing the products made on the other side. The labor standards in Canada and the United States are far above those prevailing in other countries which formerly shipped anthracites to Canada, and labor in both our countries would inevitably suffer from such overseas competition.

RESEARCH ACTIVITIES FOR CONSUMER BENEFIT

While straining every energy to produce as much anthracite as possible to meet the enormous needs of both countries during the stress of war, the Pennsylvania Anthracite Industry has increased its research in improved utilization and methods of burning. This work is now carried on by The Anthracite Industries, Incorporated, representing approximately 66 2/3% of the tonnage of the Industry. The work is conducted in the Industry's laboratory at Primos, Pennsylvania, at Pennsylvania State College and at Mellon Institute.

Appendix "A" outlines the research activities including a description of the "Anthratube", an entirely new principle of combustion using Pennsylvania anthracite.

The Federal Government has approved of the construction and maintenance of an anthracite research laboratory in the producing region and will provide funds immediately following

the end of the war to the Bureau of Mines for this purpose.

Research work carried on during the war years and that contemplated by our own and Government facilities promise future Pennsylvania anthracite users in Canada and the United States even greater benefits in heating comfort and convenience at low cost.

MR. EARNEST: I won't read the Appendix unless you prefer that I do, but I would like to comment on it later. (Continues brief):

ADAPTABILITY OF SIZES

There are six sizes of Pennsylvania anthracite generally used in domestic heating equipment. Of these, Egg, Stove, Chestnut and Pea are used in natural draft boilers, warm air furnaces, space heaters, service hot water heaters and ranges. The others, No. 1 Buckwheat and No. 2 Buckwheat (Rice) are used in magazine feed boilers, anthracite stokers and in boilers and furnaces equipped with shaking grates and blowers.

Canadian consumers, as seen by reference to Table 4, are familiar with and use all these sizes of Pennsylvania anthracite. The various sizes of Pennsylvania anthracite can meet all the requirements of Canadian consumers in the Provinces of Ontario and Quebec, including those who prior to the war burned overseas Buckwheat anthracite and during the war have been dependent upon Pennsylvania anthracite Buckwheats.

DUTY AND EXCISE TAX BARRIERS

The diminution of shipments of Pennsylvania anthracite in the period 1930 to 1940 (Table 3) and the decline of our share of the total anthracite shipments to Canada, were the direct result of trade barriers set up against Pennsylvania anthracite.

Overseas anthracites received substantial preferential treatment entering Canada as to duties and excise taxes, particularly those from the United Kingdom. The wisdom from the viewpoint of Canadian consumers of continuing such preferences

was seriously questioned by the Tory Royal Commission on Anthracite Coal (Report of February 3, 1937, page 103). But in addition to British sources, Canada imported anthracites from all over the world, some of which was subsidized by the foreign governments.

BY THE CHAIRMAN: Pardon me. I suppose, Mr. Frawley, that you have all the set-up regarding excise taxes?

BY MR. FRAWLEY: Oh yes.

MR. EARNEST continues brief:

When the pinch of the present war came, however, Canada reverted to Pennsylvania as her logical source of supply, and this Industry met her requirements to the best of its ability, and welcomed the opportunity. For years, through wars and economic dislocations, the flow of Pennsylvania anthracite to Canada has been dependable.

The Anthracite Industry feels very strongly that the record extending back to before World War I and through the intervening years and particularly during World War II, entitles it at least to equality of treatment in the postwar fuel plans of the Dominion as against overseas competition.

PLEDGE FOR FUTURE

The Pennsylvania Anthracite Industry pledges itself to the Canadian Government and Canadian consumers that everything possible is being and will be done through the development and installation of mechanical equipment and machinery in and at its mines and preparation plants and the development of improved methods of recovery to make possible the lowest practicable cost of production and the lowest cost to the Canadian consumer in the postwar period. This must be done to protect our Industry in the United States and Canada.

CONCLUSION

In the light of the foregoing record it is earnestly hoped and requested that your Commission will recommend:

1. That since Pennsylvania anthracite is the logical and dependable source of domestic fuel for the provinces of Ontario and Quebec and to a lesser extent the maritime provinces, the Canadian Government do everything possible to foster this trade for the protection of the inhabitants of that part of the Dominion.
2. That the Pennsylvania Anthracite Industry be given a fair and equal opportunity to compete with any overseas anthracites, other solid fuels, and liquid and gaseous fuels.
3. That if any overseas anthracites are admitted duty free, Pennsylvania anthracite be granted free entry; that, in any event, no higher duty or tax be laid on Pennsylvania anthracite than the lowest duty imposed upon any overseas anthracite.

BY THE CHAIRMAN: I suppose the matter of exchange interferes somewhat with your importations too?

MR. EARNEST: It has in past years, yes sir.

BY COMMISSIONER McLAURIN: There is only one way, I suppose, the exchange hits you. I mean if we didn't have multi-lateral trade we are not able to clear our debit balance with you. We have to work out Canadian-American trade on a basis that is equal; that is, you will have to buy more from us or we will have to buy less in order to keep at 10 per cent. We buy normally two, three, four hundred million dollars more from the United States than the United States buys from us, and we have been able in the past to do so by our sterling credit. I don't know whether we can in the future.

MR. EARNEST: I think that is a matter that is beyond our power. Our brief we have tried to keep very short and emphasize, I think, one thing all through, and that is equality of treatment.

TABLE 1

PROPORTION OF PRODUCTION OF PENNSYLVANIA ANTHRACITE WHICH
WAS IMPORTED BY THE DOMINION OF CANADA

Sources: Commercial production, U. S. Department
of the Interior, Bureau of Mines;
Canadian imports, Dominion Bureau of Statistics.

| <u>YEAR</u> | <u>COMMERCIAL PRODUCTION</u> | <u>CANADIAN IMPORTATIONS</u> | <u>PERCENTAGE OF TOTAL</u> |
|-------------|----------------------------------|----------------------------------|--------------------------------|
| 1920 | 78,524,223 | 4,912,964 | 6.26% |
| 1921 | 79,819,120 | 4,567,370 | 5.72 |
| 1922 | 47,240,118 | 2,514,249 | 5.32 |
| 1923 | 84,215,189 | 4,906,222 | 5.83 |
| 1924 | 79,298,819 | 3,908,317 | 4.93 |
| 1925 | 55,516,344 | 3,249,497 | 5.85 |
| 1926 | 76,860,031 | 3,883,784 | 5.05 |
| 1927 | 74,435,506 | 3,265,411 | 4.51 |
| 1928 | 68,616,056 | 3,203,231 | 4.67 |
| 1929 | 67,713,275 | 3,173,043 | 4.69 |
| 1930 | 63,651,894 | 2,955,954 | 4.64 |
| 1931 | 55,034,294 | 2,236,423 | 4.06 |
| 1932 | 46,146,491 | 1,685,532 | 3.65 |
| 1933 | 45,965,544 | 1,429,829 | 3.11 |
| 1934 | 53,217,002 | 1,804,127 | 3.39 |
| 1935 | 48,647,641 | 1,670,085 | 3.43 |
| 1936 | 51,125,154 | 1,685,848 | 3.30 |
| 1937 | 48,338,960 | 2,003,317 | 4.14 |
| 1938 | 43,170,457 | 1,977,002 | 4.58 |
| 1939 | 48,336,858 | 2,605,765 | 5.39 |
| 1940 | 48,240,438 | 2,643,588 | 5.48 |
| 1941 | 52,556,280 | 3,310,670 | 6.30 |
| 1942 | 56,640,508 | 4,422,499 | 7.81 |
| 1943 | 56,841,542 | 4,073,731 | 7.17 |

TABLE 2

IMPORTS OF ANTHRACITE INTO CANADA FROM THE UNITED STATES
AND FROM ALL OTHER SOURCES EXPRESSED IN NET TONS,
AS PERCENTAGES OF THE TOTAL

Source: Reports of Dominion Bureau of Statistics, Ottawa, Can.

| CALENDAR YEAR | FROM THE UNITED STATES | FROM ALL OTHER SOURCES ¹ | TOTAL | PERCENT OF TOTAL | |
|------------------|---------------------------|--|-----------|------------------|-------|
| | | | | U. S. | OTHER |
| 1920 | 4,912,964 | 127,513 | 5,040,477 | 97.5% | 2.5% |
| 1921 | 4,567,370 | 96,964 | 4,664,334 | 97.9 | 2.1 |
| 1922 | 2,514,249 | 179,708 | 2,693,957 | 93.3 | 6.7 |
| 1923 | 4,906,222 | 261,659 | 5,167,881 | 94.9 | 5.1 |
| 1924 | 3,908,317 | 275,277 | 4,183,594 | 93.4 | 6.6 |
| 1925 | 3,249,497 | 549,247 | 3,798,744 | 85.5 | 14.5 |
| 1926 | 3,883,784 | 359,690 | 4,243,474 | 91.5 | 8.5 |
| 1927 | 3,265,411 | 798,208 | 4,063,619 | 80.4 | 19.6 |
| 1928 | 3,203,231 | 534,102 | 3,737,333 | 85.7 | 14.3 |
| 1929 | 3,173,043 | 846,874 | 4,019,917 | 78.9 | 21.1 |
| 1930 | 2,955,954 | 1,300,136 | 4,256,090 | 69.5 | 30.5 |
| 1931 | 2,236,423 | 941,718 | 3,178,141 | 70.4 | 29.6 |
| 1932 | 1,685,532 | 1,452,625 | 3,138,157 | 53.7 | 46.3 |
| 1933 | 1,429,829 | 1,605,784 | 3,035,613 | 47.1 | 52.9 |
| 1934 | 1,804,127 | 1,733,182 | 3,537,309 | 51.0 | 49.0 |
| 1935 | 1,670,085 | 1,781,233 | 3,451,318 | 48.4 | 51.6 |
| 1936 | 1,685,843 | 1,850,652 | 3,536,500 | 47.7 | 52.3 |
| 1937 | 2,003,317 | 1,555,023 | 3,558,340 | 56.3 | 43.7 |
| 1938 | 1,977,002 | 1,746,951 | 3,723,953 | 53.1 | 46.9 |
| 1939 | 2,605,765 | 1,372,040 | 3,977,805 | 65.5 | 34.5 |
| 1940 | 2,643,588 | 1,329,181 | 3,972,769 | 66.5 | 33.5 |
| 1941 | 3,310,670 | 630,189 | 3,940,859 | 84.0 | 16.0 |
| 1942 | 4,422,499 | 379,524 | 4,802,023 | 92.1 | 7.9 |
| 1943 | 4,073,731 | 384,788 | 4,458,519 | 91.4 | 8.6 |
| 1944x | 4,161,820 | 274,071 | 4,435,891 | 93.8 | 6.2 |

1. Includes Alaska, Belgium, China, French Indo-China, Germany, Morocco, Netherlands, Newfoundland, Russia and the United Kingdom.

x Twelve months ended June 30th.

TABLE 3

IMPORTS OF ANTHRACITE INTO CANADA FROM SPECIFIED COUNTRIES OF
ORIGIN (IN NET TONS)

Source: Reports of the Dominion Bureau of Statistics, Ottawa

| <u>YEAR</u> | <u>UNITED STATES</u> | <u>UNITED KINGDOM</u> | <u>RUSSIA</u> | <u>GERMANY</u> | <u>FRENCH INDO-CHINA</u> |
|-------------|--------------------------|---------------------------|---------------|----------------|------------------------------|
| 1926 | 3,883,784 | 272,170 | - | 49,718 | - |
| 1927 | 3,265,411 | 788,235 | - | 4,818 | - |
| 1928 | 3,203,231 | 526,467 | 6,204 | - | - |
| 1929 | 3,173,043 | 729,458 | 117,304 | - | - |
| 1930 | 2,955,954 | 996,127 | 291,407 | 11,480 | - |
| 1931 | 2,236,423 | 876,364 | - | 60,762 | - |
| 1932 | 1,685,532 | 1,399,086 | - | 52,189 | - |
| 1933 | 1,429,829 | 1,605,776 | - | - | - |
| 1934 | 1,804,127 | 1,643,516 | - | 72,103 | - |
| 1935 | 1,670,085 | 1,454,521 | - | 205,045 | 54,447 |
| 1936 | 1,685,848 | 1,331,279 | - | 359,994 | 97,485 |
| 1937 | 2,003,317 | 1,134,062 | 154,495 | 258,257 | - |
| 1938 | 1,977,002 | 1,199,250 | 14,952 | 411,026 | 30,302 |
| 1939 | 2,605,765 | 1,034,901 | - | 293,602 | 43,537 |
| 1940 | 2,643,588 | 1,329,181 | - | - | - |
| 1941 | 3,310,670 | 630,189 | - | - | - |
| 1942 | 4,422,499 | 379,524 | - | - | - |
| 1943 | 4,073,731 | 384,788 | - | - | - |
| xx1944 | 4,161,820 | 274,071 | - | - | - |
| <u>YEAR</u> | <u>ALL OTHERSx</u> | <u>TOTAL</u> | | | |
| 1926 | 37,802 | 4,243,474 | | | |
| 1927 | 5,155 | 4,063,619 | | | |
| 1928 | 1,431 | 3,737,333 | | | |
| 1929 | 112 | 4,019,917 | | | |
| 1930 | 1,122 | 4,256,090 | | | |
| 1931 | 4,592 | 3,178,141 | | | |
| 1932 | 1,350 | 3,138,157 | | | |
| 1933 | 8 | 3,035,613 | | | |
| 1934 | 17,563 | 3,537,309 | | | |
| 1935 | 67,220 | 3,451,318 | | | |
| 1936 | 61,894 | 3,536,500 | | | |
| 1937 | 8,209 | 3,558,340 | | | |
| 1938 | 91,421 | 3,723,953 | | | |
| 1939 | - | 3,977,805 | | | |
| 1940 | - | 3,972,769 | | | |
| 1941 | - | 3,940,859 | | | |
| 1942 | - | 4,802,023 | | | |
| 1943 | - | 4,458,519 | | | |
| 1944xx | - | 4,435,891 | | | |

x Includes Alaska, Belgium, China, Morocco, Netherlands and Newfoundland.

xx Twelve months ended June 30th.

TABLE 4

SHIPMENTS OF PENNSYLVANIA ANTHRACITE TO CANADA BY SIZES

Source: Reports of Pennsylvania Department of Mines

| SIZE | 1942-1943 | | 1943-1944 | |
|-----------|------------------|---------------|------------------|---------------|
| | TONNAGE | PCT. | TONNAGE | PCT. |
| Broken | 21,459 | 0.6% | 17,389 | 0.5% |
| Egg | 451,426 | 12.0 | 459,827 | 12.4 |
| Stove | 1,641,117 | 43.7 | 1,391,373 | 37.6 |
| Chestnut | 1,033,678 | 27.5 | 970,851 | 26.2 |
| Pea | 126,251 | 3.4 | 104,277 | 2.8 |
| Domestic | <u>3,273,931</u> | <u>87.2%</u> | <u>2,943,717</u> | <u>79.5%</u> |
| Buckwheat | 199,082 | 5.3% | 353,195 | 9.5% |
| Rice | 187,458 | 5.0 | 332,636 | 9.0 |
| Barley | 59,604 | 1.6 | 56,347 | 1.5 |
| All Other | 34,887 | 0.9 | 19,220 | 0.5 |
| Steam | <u>481,031</u> | <u>12.8%</u> | <u>761,398</u> | <u>20.5%</u> |
| Total | <u>3,754,962</u> | <u>100.0%</u> | <u>3,705,115</u> | <u>100.0%</u> |

| SIZE | 1944-1945 | |
|-----------|------------------|---------------|
| | TONNAGE | PCT. |
| Broken | 8,849 | 0.3% |
| Egg | 441,908 | 12.7 |
| Stove | 1,288,168 | 37.0 |
| Chestnut | 882,239 | 25.4 |
| Pea | 97,618 | 2.8 |
| Domestic | <u>2,718,782</u> | <u>78.2</u> |
| Buckwheat | 345,204 | 9.9% |
| Rice | 287,942 | 8.3 |
| Barley | 96,261 | 2.8 |
| All Other | 28,397 | 0.8 |
| Steam | <u>757,804</u> | <u>21.8%</u> |
| Total | <u>3,476,586</u> | <u>100.0%</u> |

TABLE 5

SHIPMENTS OF PENNSYLVANIA ANTHRACITE TO CANADIAN DESTINATIONS

Source: Reports of Pennsylvania Department of Mines

| DESTINATION | 1942-1943 | | 1943-1944 | |
|-------------|------------------|---------------|------------------|---------------|
| | TONNAGE | PCT. | TONNAGE | PCT. |
| Hamilton | 220,922 | 5.9% | 173,818 | 4.7% |
| Montreal | 495,116 | 13.2 | 681,491 | 18.4 |
| Ottawa | 127,339 | 3.4 | 136,309 | 3.7 |
| Quebec | 102,415 | 2.7 | 139,311 | 3.8 |
| Toronto | 936,692 | 25.0 | 929,519 | 25.1 |
| All Others | <u>1,872,478</u> | <u>49.8</u> | <u>1,644,667</u> | <u>44.3</u> |
| Total | <u>3,754,962</u> | <u>100.0%</u> | <u>3,705,115</u> | <u>100.0%</u> |

TABLE 5 (Continued)

SHIPMENTS OF PENNSYLVANIA ANTHRACITE TO CANADIAN DESTINATIONS

| <u>DESTINATION</u> | <u>1944-1945</u> | |
|--------------------|------------------|-------------|
| | <u>TONNAGE</u> | <u>PCT.</u> |
| Hamilton | 161,990 | 4.7% |
| Montreal | 714,734 | 20.6 |
| Ottawa | 118,852 | 3.4 |
| Quebec | 162,902 | 4.7 |
| Toronto | 821,790 | 23.6 |
| All Others | 1,496,318 | 43.0 |
| Total | 3,476,586 | 100.0% |

APPENDIX "A"RESEARCH PROGRAM OF
THE ANTHRACITE INDUSTRIES, INCORPORATED

A staff of more than sixty coal scientists and technicians is maintained at The Anthracite Industries, Incorporated, laboratory at Primos, Pennsylvania, to work exclusively on the Industry's needs - immediate and postwar - for improved burning equipment, control devices and more efficient and convenient methods of using the product.

This laboratory staff - the largest in the history of the Industry - works closely with equipment manufacturers, supplying them with scientific information on combustion characteristics, aiding in the solution of specific design and mechanical problems and by developing and supplying facts and data from which better anthracite-burning equipment and controls can be produced.

An outstanding accomplishment of the laboratory and one of far-reaching significance is the development of the "Anthratube", which embodies an entirely new principle of combustion using Pennsylvania anthracite. The "Anthratube" combines the functions of a boiler and burner. It is smaller in size than any coal heating unit, and will be lower in cost than competitive equipment. The "Anthratube" principle insures high efficiencies and lower operating costs to the consumer. The basic information has been offered on a royalty free basis to

equipment manufacturers and others in Canada and the United States who are at present engaged in designing boiler and furnace burner equipment for use in residences in the postwar period.

Basic research by the engineers covers all the factors entering into combustion of Pennsylvania anthracite, such as rate of burning, effect on varying drafts, depths of fuel beds and relationship of depths to the many sizes of anthracite. All these factors, and many interrelated factors, such as under-fire and overfire control of air, have a great bearing upon the development of handfired and automatic equipment. This is particularly true in the development of inexpensive thermostats and controls which will be offered in the postwar period to insure additional conveniences and lower operating costs for the Canadian consumers who prefer not to make any major changes in their existing heating equipment.

MR. EARNEST sworn by the Chairman as to facts, information to be based on reasonable information and opinions on proper evidence.

EXAMINED By Mr. Frawley:

- Q You say in your brief on page 3 that your coal is not in any real competition with Canadian-produced coals, and then you go on to say that our coal is located at great distances from your Central Canadian market. That is why you say they are not in any real competition?
- A Well, I think two items. We are not in any real competition price-wise considering the high cost of your own produced coals, as I understand it, plus the freight rates, and secondly I think because of equipment installed in many homes in Canada. That equipment was specifically designed to burn anthracite and in most cases I don't believe that bituminous coal will work satisfactorily in much of the equipment.

Q Then do I understand you do not regard any bituminous coal as being in competition with your anthracite?

A In the domestic heating market?

Q Yes.

A I would not go that far. I would put it the other way around. I would say that I think Pennsylvania anthracite is a better fuel for the domestic market than bituminous.

BY COMMISSIONER MORRISON: Heat values?

A It is not alone B.T.U. value; it is what the equipment can get out of those B.T.U.'s.

BY MR. FRAWLEY: Leaving out Canadian coal altogether, you are not saying that you are not in any competition with well prepared, well treated, well sized bituminous stoker coal?

A On stokers, yes, we are directly in competition with any bituminous coal. My reference was to the handfired market market and the equipment that is now installed in Canadian consumers' homes.

BY COMMISSIONER McLAURIN: Mr. Earnest is in competition with that 16½ tons of anthracite coal we brought out.

BY MR. FRAWLEY: What you say is that before bituminous coal can get into serious competition with you there has got to be a lot of change-over in installations?

A I think that is right, and you take the better class of bituminous coals, I think we are in direct competition with them on any size. The better the bituminous is prepared, naturally the more competition we can expect from it.

Q We were told at one of our sittings the retail price of Pennsylvania anthracite was as much as \$15 or \$16, and Cavalier stoker coal and Grenadier could be laid down at something under \$10.

A That is true, but if you are talking about stokers, that is a lower priced Pennsylvania anthracite in which you could burn Buckwheat or Rice, so the price would not be anything like that.

Q So what you regard in competition with good stoker coals is your stoker coals or Buckwheats?

A That's right, Buckwheat and Rice.

Q And when you talk about Pennsylvania block coal, lump coal, that you say has not got very much competition, and largely because of installations in Central Canada?

A That's right. The bituminous gentlemen present would probably take some exception to the statement, but as far as my opinion is concerned, in the type of Quebec heaters particularly installed in large quantity in this section, anthracite is a much better coal for that type of equipment.

Q Of course you know bituminous is working on a smokeless stove which if successful should be widely used?

A I am familiar with their research in a general way and I think it is a point, if I may now speak for the bituminous industry, greatly in favor of this whole situation, the research work being done by both, because there is more to this whole picture than just the matter of the price per ton and I think over a period of years, not only the way that the bituminous and anthracite industry has taken care of its customers in Canada, but I think you can also depend on the coal industry of the United States doing a great research job in the approved burning of fuel, all for the benefit of the Canadian consumer.

BY COMMISSIONER MORRISON: You admit that there is room for the anthracite people to greatly improve their product over what they are selling to us today?

A Well, I was talking there about the equipment, sir, that burns the coal. We feel that the anthracite industry has shipped an excellent product in general during these wartime conditions. Practically all of the operators have maintained good standards of preparation, and everything possible has been encouraged by the administrator for solid fuels to do the best possible policing job to keep the quality up. I know in general we have had very few com-

plaints on the quality. There has been some poor coal gone to market, but not anything that the anthracite industry as an industry wanted to go to market; it was just beyond the control of any governmental body. That is a very small percentage.

BY MR. FRAWLEY: You do not regard your coal as being in competition with sub-bituminous coal from the Western fields?

A No sir.

Q Why is that?

A That gets back to equipment. As I understand, you have 35% volatile as compared with 5 or 6 in Pennsylvania anthracite.

Q Oh no, Alberta sub-bituminous would not be that high volatile. It might be only 20.

A Well, even with 20 you must have a larger combustion space to burn your volatile in.

Q Oh, let me correct that. You said volatile? I thought you said moisture. Take your first figure.

A I think about 35. You have to have a larger space to burn the volatiles, and secondly you must have a larger chimney to burn the volatiles, and over a period of time, I think, looking at convenience from the standpoint of a home owner, the fact that you can fill up your fire bed with Pennsylvania anthracite and let it go indefinitely is a great convenience, and I think is one reason why your citizens prefer anthracite to your own coal.

Q You think except for the price differential it would be a very difficult thing for domestic coals, Alberta coals, to supplant the Pennsylvania anthracite in Central Canada?

A If they are not given any preferential treatment, if there is not any question of high subsidy on those coals to make the cost differential entirely too high, if we can compete on a fair competitive basis, I don't think there is much hope in the domestic heating market. That is my personal opinion.

- Q There is a \$2.50 freight assistance on that coal now. You are quite compared to compete with that? If that were increased?
- A Yes, or if you subsidize labor costs or anything else to a large extent.
- Q But as to the present situation, you do not fear Drumheller coal with a \$2.50 freight subvention?
- A I don't know about the word "fear" but we are willing to compete against them.
- Q Turning to Nova Scotia mines, you say you are not in any real competition with Canadian produced coal. I suppose, granted government assistance and granted the preparation of Nova Scotia coal was comparable to American bituminous coals, you could be placed in somewhat the same position as you are now with these good stoker coals from the United States?
- A That's right. When you get into stokers it is a different proposition. It involves the purchase of new equipment, and there is no question but mechanical equipment introduces an entirely different situation.
- Q You do say in this same apargraph: "It is not economically sound for the Canadian producers to ship to those marketing areas." I don't want to invite you to make remarks that you feel diffident about making, but that again depends upon how much government assistance is granted to overcome the natural handicaps?
- A That's right; that is what you have to read into that.
- Q And however much disruption of the economics the government of Canada think they should carry out, that is another matter?
- A That is another matter which we hope they don't do.
- Q What about the present situation? Are you reasonably happy about the amount of assistance that they have under the present set-up--I mean going back prior to the war?
- A No, we are not particularly worried. Again I am talking about the handfired market. I am not particularly worried

as conditions existed prior to the war.

Q You mean coal for coal the Nova Scotia bituminous cannot take your coal out of the Ontario furnaces?

A That's right.

Q Let us assume they are going to try to get in here with a well prepared stoker coal?

A That gets into the question--the people first have to buy stokers, then we get into a lower priced coal also when that happens, then the question is, can we compete favorably with your coal? We think we can.

Q There is something I would like you to develop. We were told that those coal companies should get into the stoker business, go out and subsidize the purchase of stokers, like the oil companies do. Let's assume Dominion Coal Company goes into that business. Do you think you would be sitting across the line with something up your sleeve to meet them?

A Nothing like that, because I don't believe in the subsidizing of equipment sales and I don't think it can be done on any economic basis.

Q Suppose you saw Nova Scotia coal coming up here with something, and you feared loss of business?

A I would not fear loss of business to start with because I don't think it is economically sound for any coal company or combination of coal companies to get into the equipment business and subsidize the purchase of equipment in order to get fuel sold, because if it doesn't stand on its own feet I don't think it is economically sound.

BY THE CHAIRMAN: The oil company doesn't subsidize.

A That is an individual oil company. Nobody would expect the coal companies to sell it and not have an economic background for it. If they can do it successfully, which nobody has demonstrated in either oil or coal. When you get to a distributor or an individual company, if they want to do it and can do it--I am speaking of an individual movement, not an industry.

BY THE CHAIRMAN: I don't think you should use the word subsidy. As I understand it, the equipment is provided on a profit basis by all the oil companies that I have knowledge of. I don't think you can call that subsidy.

BY MR. FRAWLEY: I am going to correct that. I think the nature of the assistance is long-term payments.

A Well, that is entirely sound, and that is available through financing companies anyway. You were asking me about stoker coal.

Q That's right.

A I don't know of any advantage, I mean if there is not any subsidy involved, then I think as equipment is produced and improved--you are talking now of stoker coals--we are willing to take our chance on competition, as long as it is on a fair and equitable basis.

Q And when we are discussing coal with you of course we should stick pretty well to the domestic market?

A Anthracite does not share in the industrial fuel market to any large extent.

Q Now that is the kind of coal you think you are not in competition with, but I gather you feel you are in competition with the Welsh and Scotch anthracite?

A Very definitely.

Q And you think that this Commission should recommend that you should be put on an even keel with this overseas anthracite?

A That is our purpose.

BY THE CHAIRMAN: By placing a tariff on the overseas anthracites?

BY MR. FRAWLEY: At the moment you are under a disability because Scotch and Welsh anthracite coming in here, Buckwheat No. 3 and larger, comes in free? For that matter smaller comes in free too. That is so?

A That is what I understand.

- Q I am talking from this very handy document prepared by the Pennsylvania railway companies. We find from the U.S.A. Buckwheat No. 3 and larger is subject to 50 cents duty, and right there is what do you call that?
- A Well, it is tariff. That is what we call it.
- Q Discrimination? I was thinking of a word like that.
- A Well, I will let you use that.
- Q Then I go into the next column, which would include the Russian and German coal which used to come over here. They paid the same 50 cents as you did?
- A That is as I understand it.
- Q You don't have to be put in a class with the Russians and the Germans and the Indo-Chinese?
- A I don't know about the class. If you want to follow through what you started, I would like to answer that. We would like to have the duty eliminated. Let's start from that basis and make it free and open competition. We don't think we are in direct competition with your coals, so therefore we would like to see the duty taken off.
- Q You would much prefer that to picking 50 cents up on the English coals?
- A Much prefer that. We want that on the record.
- Q Dr. Howland suggested a good way to do that would be to make a loan of that money to Britain.
- A We have enough problems without taking that on.
- BY COMMISSIONER McLAURIN: It is not a question of Mr. Earnest loaning it to Britain. We are the ones who collect the 50 cents; we are the ones to loan it.
- A If I may add to that 50 cent question: I think one of the important points in this 50 cent tariff--and I hope you agree that in our brief here we have eliminated everything except the vital points concerned--now we think that that 50 cents costs the users of Pennsylvania anthracite 50 cents a ton, and it is our observation that it also costs the consumers of overseas British anthracite 50 cents a ton, because the

other prices are announced after the Pennsylvania anthracite prices are announced, so that the whole thing is 50 cents on top of the Canadian taxpayer, no matter which way they are paying.

BY THE CHAIRMAN: Well, that has been the history of tariffs.

BY MR. FRAWLEY: Now here is something else, just for the sake of putting something on the record. I don't know just where it was said, but certainly the impression was left with me at one time that Pennsylvania anthracite was getting scarce and that the Americans would be quite happy if we didn't buy any at all, and you are only sending it over because you think we are nice friendly people to do business with. What do you think about that?

A I have read some of the testimony that was given in front of your Commission. Somebody was asked the question, was this friendliness for the Canadian people or was it just hard-boiled good business. I think the answer is, both, but I don't think anyone could challenge the statement that friendliness has entered into this picture, and particularly during the war. If there are any press reporters present I don't want this to be quoted, but we are on the spot all the time because of the preferential treatment that has been given to Canada in the portion of our total production that it has received as compared with what has been shipped to the dealers in the United States, so you very definitely have had preferential treatment, and I think that friendship does enter into that picture, and along with it, it is good business for us to do it.

BY COMMISSIONER MORRISON: Friendship and profit both. I am glad to hear you say it.

A That's right.

BY MR. FRAWLEY: As I understand it, the Canadian market is an integral part of the market of a good many members of all the large anthracite producers?

A Oh, very definitely.

- Q Do all of the so-called Big Six ship into Canada?
- A Yes sir. I don't know that expression Big Six.
- Q It is what they call "on circular". You are either "on circular" or "off circular" in the anthracite business?
- A Well, chiefly "off".
- Q You can develop that if you like. There is such a thing as being "on circular" or "off circular"?
- A Oh, very definitely.
- Q What does that mean?
- A We don't know whether there will be a circular after the war or not because of certain legal proceedings that went on in the United States a certain time ago, but it has been the practice in the past for companies to have a circular price.
- Q The large producers?
- A Well, all of them. And then, depending on the law of supply and demand, naturally if there was not an immediate market for the coal it went off circular. Whether there will be a circular or not, I don't know. It depends upon what can the industry do under present-day conditions to get together and try to decide how they can stay in business on a sound basis of reasonable profit. We don't know in the United States how you can do that, but in the past we could do it.
- Now I don't want to skip one question you asked me, the supply question. The same question was asked Mr. Howe yesterday. Using his figure, the 150 years is our mineable, obtainable coal, that is, 150 years of reserve.
- Q So that you have a commodity which you are anxious and willing to sell wherever you can find buyers?
- A Yes sir, and we are going to be extremely anxious after the war, because in this whole question is the competitive situation that is going to arise on oil, and if I may speak on that for a minute, oil receives preferential treatment, as I understand it, in this country. There is no tariff on fuel oil.

Q On crude oil.

A Therefore people who use oil burners in Canada pay no tariff, which is a further handicap to Pennsylvania anthracite.

Q I think there is a provincial tax in some provinces. I don't know about down here where you sell most of your anthracite.

A I think that tax is probably on gasoline.

Q Oh, there is one on gasoline, but certainly there is on fuel oil in some places. Crude oil comes in duty free from the mid-continent and Pennsylvania anthracite comes in and has to jump a 50 cent barrier?

A Yes.

Q Now I just want to have a word from you on this. As I understand the situation, this is it: Pennsylvania anthracite producers regard their Ontario and Quebec business, Canadian business, just as much a part of their year's operations as they do coal business in the United States?

A Very definitely.

Q And when they are blocking out their season's operations Canada figures in the picture just as much as do the States of New York, Pennsylvania and Ohio?

A I think you can say it a little differently. I don't think we recognize in the United States this line here which is the boundary line. You are a part of our living and a part of our business.

Q That is what I want to get clear. Now you say that the equipment is largely designed to burn Pennsylvania anthracite, that is in Central Canada?

A That is as I understand it.

Q That is largely a case of the ancientness of the installations?

A In some cases that is correct.

Q Because in some of these dwellings in Ontario, which some of us left long ago to go to other parts ---

BY THE CHAIRMAN: For which you are truly thankful.

BY MR. FRAWLEY: They were all designed originally to burn this coal, because there was no bituminous coal being sold there in those days?

A That is correct.

Q It is not a matter of credit? It is a fact, it is there and you people are taking advantage of it?

A Perhaps that is correct. In the future, however, the fuel industry is going to do everything possible through research to have the type of equipment put in that will burn its fuel most advantageously. I skipped that appendix, and I don't want to take up time, but we have an entirely new method of burning anthracite that we think offers great possibilities. If we get that equipment in that will only burn anthracite we are going to do it.

Q You, I suppose, think your Pennsylvania anthracite is a better anthracite than Scotch and Welsh?

A We do.

Q Then why are you bothering with the 50 cent duty? Do you think you can sell it without it?

A I don't think we should have that handicap of the 50 cent duty, particularly when your taxpayers are paying it anyway, for the reason I mentioned a little while ago, but we believe--and you take this record which we described in the brief here of the way the United States has taken care of its business right through World War I and II--we just don't see why we should be penalized by having a price handicap there that should not be there. Now I know that in some cases they sell at a little higher price than Pennsylvania anthracite, but why have that other 50 cent question there?

Q Particularly down in Montreal, where you sell a lot of it?

A They think it is better coal, that's all I have to argue.

Q I was told yesterday that there were some anthracite gentlemen here from Pennsylvania that might like to add extemporaneously to what you have said, and while that is

just a little bit out of the routine of this Commission, still I think the Commission would be glad to hear them.

BY THE CHAIRMAN: I think the gentleman suggested he might have something to say about the appendix.

BY MR. EARNEST: I did mention it, Mr. Chairman, and I think I did in the earlier part. All I wanted to say is, I believe that we have to look at both the equipment picture as well as the fuel picture.

BY MR. FRAWLEY: I think what the Chairman was saying was that those other people who wanted to say something perhaps wanted to direct their remarks to the appendix.

A I don't know.

BY COMMISSIONER MORRISON: On page 4 of your brief you referred to this overseas anthracite being imported by two firms. You indicate the cause of their inability to get supplies and you had to take up the slack. Were these two firms part of the outlet for Pennsylvania anthracite when Welsh anthracite was not available?

A Well, I don't know the answer to that but it would not have been of any help if they had been. We have all the distribution channels we need here.

Q The American anthracite immediately became available to them when they couldn't get the other? Because they were competing with overseas didn't stop you from giving them Pennsylvania anthracite when they couldn't get the other?

A That's right. In some cases I am told that was done.

BY THE CHAIRMAN: Thank you, Mr. Earnest.

BY MR. FRAWLEY - The next witness will be Dr. G. A. Lamb from Washington, and I will begin by asking him to introduce himself and then to make his statement to the Commission.

DR. G. A. LAMB - My name is George A. Lamb, and I am Assistant Director of the Bureau of Mines, United States Department of the Interior. My office is in Washington. It is a permanent organization established in 1910, and among its activities it carries on investigations into all kinds of mining, the use of explosives and safety devices, and collects mineral statistics, and during the war worked with the Solid Fuels Administrator with respect to statistics and technical matters relating to production and use of coal. Prior to my appointment to the present position in 1944 I was with the Solid Fuels Administrator, and previous to that with the Bituminous Coal Divisions, and with both of those I was in charge of economics and statistics.

I propose to present six documents or exhibits, which are discussed in a summary statement. They may be identified as follows:-

Exhibit 217 - Summary Statement of Dr. Lamb.

BY MR. FRAWLEY - Then if you will begin with the Exhibits subsidiary to Exhibit 217.

BY DR. LAMB - Yes. The first one is -

Bituminous Coal in 1943 - Marked Exhibit 218.

BY MR. FRAWLEY - They have been referred to as Exhibits 1, 2, 3 and 4. We will simply eliminate the reference to them in Mr. Lamb's own statement, because they have been referred to.

BY DR. LAMB - Briefly, this Exhibit 218 furnishes an inventory of the Bituminous Coal Industry in the United States on an annual basis through the year 1943, on the cover. Inside you will note a map showing the various districts and price series, which may be of some useful reference. On pages 20 and 21 an historic summary of pertinent items in the bituminous coal industry. These go back to the year 1890.

The next one which is marked Exhibit 219 is entitled

"Pennsylvania Anthracite 1943", and it has a supplement

"Pennsylvania Anthracite 1944" which is marked Exhibit 220.

In general it covers the same materials as the previous exhibit, namely Bituminous Coal in 1943.

The next document which is marked Exhibit 221 is a map entitled "Total Distribution of Bituminous Coal and Lignite during the year ended June 30th, 1944 by District of Origin and State of Destination". This map shows the pattern of coal distribution including the movement into Canada. It also outlines in convenient form the districts of origin in the United States.

BY MR. FRAWLEY - These are the producing districts?

A. That is right, Sir.

BY DR. LAMB - The next document which is marked Exhibit 222 entitled "Bituminous Coal Distribution, Calendar Year 1944", shows in some detail for the calendar year 1944 the distribution of bituminous coal by uses, sizes and destinations.

The next which is marked Exhibit 223, is a one page table entitled "Distribution of Pennsylvania Anthracite, April 1, 1942 - March 31, 1943, by States, Provinces and Countries of Destination."

And the last document that I wish to present is a one page tabulation entitled "Comparison of laid-down costs of Nova Scotia and American coals at selected Canadian Destinations, Total Excess Cost of Nova Scotia coals over American coals, Subvention rates paid on the movements, Net Difference of Nova Scotia laid-down cost to consumer after subvention compared to United States cost, and tonnages upon which subventions were paid during 1939." This is marked Exhibit 224.

All these documents, the first five that I introduced dealing with the statistical tables, are public documents published by the United States Department of the Interior. The last document is a compilation based on detail supplied by the office of the Coal Controller here in Ottawa.

In addition to these Exhibits, I have a set of more

detailed records which include price schedules and other material, which I am not introducing, but if the experts wish to have that material I will be glad to give it to them.

DR. LAMB then reads Exhibit 217, as follows:

COAL TRADE BETWEEN CANADA AND THE UNITED STATES,

In 1944, the United States shipped 28.5 million tons of coal to Canada, of which 24.4 million tons were bituminous and the rest anthracite. These shipments to Canada represented 95 percent of the total U.S. coal exports. With few exceptions since the coal industry became a sizable business, the great bulk of U.S. coal exports have been to Canada. Siminally, the United States has been one of the larger markets for Canadian exports.

Ordinarily, Canada produces about half of the coal it consumes. It obtains the other half almost entirely from the United States. In the war periods 1914 to 1918, and 1940 to 1944, as well as in other years, the U.S. proportion has been more than half, being as large as 63 percent. In certain other years, it has dropped below the 50 percent mark.

Just as U.S. coal exports other than Canadian are small generally so are the tonnages imported by Canada from countries other than the United States. Great Britain has moved coal to Canada year after year but only in the thirties did its tonnages tend to approach 10 percent of the total Canadian consumption. In the majority of years since 1902, it was less than 2 percent. Other countries, also, have made modest attempts to enter the Canadian coal market but none has established a position of any significance.

As backed by statistical records, many contend that the importance of U.S. coal in Canada is a development supported by economic factors. It is stated that the United States has cost advantages open to the Canadian consumer which cannot be ignored. Mining conditions and the location of production give the Canadian coal industry disadvantages both in a large section of

the Canadian market and as an exporter.

Contentions of this character are basic and call for analysis. First, however, some background of the U. S. coal industry in order that comparisons may be more clearly understood.

The coal industry is one of the larger industries in the United States but is also one of the more important from the standpoint of industrial operations. It is the source for 55 percent of the energy as compared with 29 percent for petroleum, 12 percent for natural gas, and 5 percent for waterpower. The availability of an abundance of coal has been a basic reason for the development of the vast economy of the United States.

The reserves of coal in the United States are of great magnitude. It is estimated that the grades bituminous through lignite will last 4,300 years at the rate of consumption averaged between 1935-39. This, of course, assumes that technological change will provide for use of the lower grade coals to offset the depletion of the better qualities which are more limited in amount. Nevertheless, the great coal deposits assure that the United States will have one of the basic needs for an expanding economy for many centuries to come. It means that the coal industry will continue to be a large business in the United States.

During the calendar year 1944, there was a total coal production of 684 million tons, which was made up of 64 million tons of anthracite, and 620 million tons of bituminous and lignite, the latter a relatively small amount. The 684 million was the largest tonnage ever mined in the United States.

The trend of coal production was upward, almost year by year, to World War I. A production of 279 million tons in 1900 advanced to 678 million tons in 1918, which was the all time record until 1944. After World War I, there was a flattening on the production curve, with a sharp dip coming with the depression of 1929. Recovery was slow during the thirties. A big change upward appeared with the increasing war demands that became apparent in the United States in 1941. (Exhibits 1 and 2).

BY DR. LAMB - Reference to Exhibits 1 and 2 provide basic information which has been used in this discussion here.

DR. LAMB continues Brief

Coal deposits are scattered widely over the United States. They include a variety of coals ranging from anthracite to lignite. Last year, 24 States and Alaska produced more than 100 thousand tons. The anthracite region, as commonly known, is located in eastern Pennsylvania. Small amounts of anthracite and semi-anthracite are mined in other areas. Most of the bituminous coal, generally around 70 percent, is produced in the Appalachian area which extends from Pennsylvania and Ohio to northern Tennessee. Here also are found the larger tonnages of the better grades of bituminous. Most of the coal shipped to Canada originates in this area. The mid-western fields of Illinois, Indiana, Iowa and West Kentucky, are important producers, accounting for approximately 20 percent of the total output. They furnished Canada with heavy tonnages of railroad fuel during the war. There are large coal deposits west of the Mississippi River, many of which are of the lower grades of bituminous or lignite. Because of grades as well as location to the major markets, the western coals have not been mined extensively.

The principal use for anthracite is space heating. Approximately 80 percent is burned for that purpose. Bituminous has a variety of uses, principally in the industrial field. Last year, it was consumed as follows: Railroads 23 percent, coke and steel industry 20 percent; electric power utilities 12 percent, manufacturing and other uses 21 percent and retail trade 23 percent. Something over half of the coal handled by the retail trade was for heating, the rest was for the smaller commercial users. In addition to consumption, approximately 7 percent of the anthracite production and 5 percent of the bituminous production were exported, largely to Canada.

The major market for anthracite is in the eastern states north of the Potomac River. The large bituminous consumption is in the area Illinois and east. As far as States are concerned,

Pennsylvania, Ohio, and Illinois, are the big users. There is an essential use for coal in every State. (Exhibits 3, 4 and 5).

BY DR. LAMB - Reference to the map and to the distribution documents give more detail with respect to that particular subject.

DR. LAMB continues brief

The history of the coal industry since World War I is well known. Appearance of competitive fuels and developments in fuel efficiency tended to narrow a market which previously had expanded almost year by year. At the same time, mining capacity, particularly in bituminous, had reached record levels after that war. The narrowing market and the excess capacity opened the way for vigorous competition. Bituminous coal, scattered over many States, and representing numerous companies, interests and customs, was particularly susceptible to price warfare. Anthracite lost half of its market between the two world wars. Prices declined steadily and bankruptcy became common. Bituminous gained its first relief under N.R.A., and later in 1935 and 1937, was subject to more specialized measures in the form of minimum price regulation. Anthracite waited until World War II before realizing improved marketing conditions.

During World War II, the coal market was tight, the tonnages sometimes short, in spite of amazing performances in production. Prices advanced. Distribution control and maximum price regulation came to the front as major considerations. The minimum price act was left to expire. The average bituminous coal mine price of \$2.19 per ton in 1941 had increased to \$2.69 per ton in 1943. Anthracite went from \$4.26 per ton to \$5.06 per ton over the same period. Wartime operating costs, including overtime payments, increased about the same as prices so that there was little change in the financial condition of the coal industry between the two years.

For purposes of simplicity, comparisons will be limited to bituminous in considering the economics related to the U.S.

coal exports to Canada. Pennsylvania anthracite has an important sale in Canada but because of grade can be compared with the Canadian bituminous only by use of the highly technical explanations. Comparisons in most cases will refer to the most recent period not affected by wartime conditions.

Central Ontario is the largest Canadian coal market. In 1939, it received 11.3 million tons, or 39 percent of the tonnage available for consumption in Canada. It has maintained its important position for years. Quebec is the second largest consuming area but less than half the size of central Ontario. The two, together, purchase well over half of the coal used in Canada. Neither of the two provinces are coal producers. Many of their destinations are distantly located from the major Canadian fields, and relatively close to the sources of coal supply in the United States where they obtain the bulk of their tonnage. They represent the major export market for U. S. coals.

What are the marketing characteristics of the U. S. bituminous coals exported to Canada? First, originating in the Appalachian area, they represent the better qualities. Second, they have advantages over competitive Canadian coals with respect to mining costs. Third, after adding to mining costs, the items of transportation, handling and tariff, they have favorable delivered costs as compared with the Canadian output.

During the calendar year 1939, the average mining cost for bituminous coal as reported under the Coal Act was \$1.94 per ton for the United States as a whole. It was \$2.00 for the Appalachian area, that is, Price Area No. 1, where nearly all the coal destined to Canada originates. Individual districts of this area had costs ranging between \$1.66 and \$2.20. In the same year, Canada had mining costs of \$3.42 per ton, excluding interest and income tax items to make the average more comparable to figures of the United States. This is a differential of \$1.48 above the average for the United States, and \$1.42 above Price Area No. 1. Nova Scotia's cost of \$4.21 was \$2.21 above the Appalachian area, and Alberta's bituminous cost of \$2.83 was 83 cents above the same area.

The first full calendar year under the Coal Act was 1941. U. S. average cost in that year of \$2.12 per ton reflects a major increase in wages. It was \$1.42 less than the Canadian cost of \$3.54. The Appalachian average cost of \$2.20 gave it \$1.34 advantage over Canada. During the six years, 1936 through 1941, the Appalachian area had favorable cost differentials of between \$1.30 and \$1.46 per ton.

The average mine price in the United States was less than average costs between 1936 and 1939, was 1 cent per ton above costs in 1940, and 7 cents above in 1941 when minimum prices were effective. It was from 2 to 17 cents below costs in the Appalachian area from 1936 to 1940, and 5 cents above costs in 1941. Between 1936 and 1941, mine realization in Canada was from 1 cent to 23 cents below mining costs excluding interest and income tax. In both countries, mining companies were active in other business to effect, at least in part, some of the deficits between costs and realization. Since costs and mine realization tend to approximate each other in the United States and in Canada, price level comparisons have been covered in the above discussions in costs. The United States has a definite advantage.

BY MR. FRAWLEY - These Canadian costs come from the office of the Coal Controller?

A. Yes, that is right.

BY THE CHAIRMAN - At the end of that paragraph - "In both countries, mining companies were active in other business to effect, at least in part, some of the deficits between costs and realization. Was that a part of the mining?"

A. Some of the activities are related to mining, such as operating stores, relating to transportation system, and something of that character, some retail yards, and so on.

DR. LAMB continues brief.

Without detailed reference to other component costs involved in the marketing of coals, such as transportation, handling, and tariff - items fixed over long periods and for the most part by regulatory authority - attention may be turned to comparative

laid down coal costs in Ontario and Quebec. Valuable information was furnished on this point by the office of the Coal Controller. It involves 48 destinations located in these 2 provinces. It shows that the U. S. coals were delivered from 13 cents to \$2.16 per ton lower than Nova Scotia coals in this large central market of Canada. For example at Hamilton, Ontario, Clearfield, Pennsylvania slack was delivered at \$4.75 per ton, \$1.95 under Nova Scotia coals. Quebec received West Virginia lump at \$5.89, or \$1.21 less than the Nova Scotia price. These laid down costs indicate clearly the competitive advantages of United States in Central Canada. (Exhibit 6).

BY DR. LAMB - Details are shown in document No. 6, Exhibit 224.

DR. LAMB (continues brief)

The subventions authorized by Canada provide a convenient index on the marketing advantages of U. S. coals. Since they provide a means for erasing delivered price differentials in part or in whole, the subventions indicate the points where there are U.S. marketing advantages. Between 1928 and 1944, a total of over 37 million dollars on nearly 31 million tons of coal, an average of \$1.21 per ton, was authorized for this purpose.

With respect to the 48 destinations in Ontario and Quebec in 1939, subventions ranging from 31 cents to \$2.16 per ton were paid upon 1-1/2 million tons of Nova Scotia coal.

BY THE CHAIRMAN - I suppose that between 1938 and 1944, this 37 millions - there were not very many subventions paid from 1941 to 1944?

A. There was quite a decline, Sir, in the amount paid during that period, that is right.

DR. LAMB continues brief

While the U. S. coals have marketing advantages in Central Canada, it so happens that Canadian coals have but limited opportunities for sales in the United States. The major U. S. markets are south of the central Canadian consumption area, and closer to the U. S. coal fields.

The total Canadian coal exports amounted to 376 thousand tons in 1939. Of this total, 264 thousand tons, or 70 percent, were shipped to the United States. Exports to the United States increased during the war years, being 307 and 412 thousand tons in 1941 and 1942 respectively, and were of special assistance in meeting fuel needs of particular markets.

A larger part of the tonnage exported to the United States originates in British Columbia and Alberta. The destinations are primarily in the state of Washington and in northern Idaho. New Brunswick is another exporter to the United States. It moves in excess of 25 thousand tons to points in northern New England.

British Columbia and Alberta coal exports enter a market in Washington and Idaho that is not large in comparison with markets of the central and eastern states. In 1944, a peak fuel year for coal consumption, the state of Washington used about 2-1/2 million tons exclusive of railroad fuel. Idaho used around half as much. Ordinarily, Washington obtains the larger part of its coal requirements from its own mines. These mines have a limited capacity and outside sources were called upon to meet the added war needs. Besides Canada, coal was taken from Utah, Wyoming and Montana which have large mining capacities. Washington also burns much oil and wood for fuel. Most of the Idaho consumption is in the southern part of the state, within easy reach of the Utah and Wyoming fields.

Other states on the Canadian boundary east of Idaho do not have promising markets for Canadian coal. Montana has large reserves of coal mined at low costs which are near its consumption centres. North Dakota has its low cost lignite output and a number of sources for bituminous. Minnesota and east can obtain a wide variety of coals at much lower prices than Canada can offer. The only exception is the small market for New Brunswick coals in northern New England.

Reference to the 1941 minimum price schedules provides convenient comparisons on the coal market in the Pacific Northwest before the entrance of United States into the war. These schedules

reflect a vast amount of marketing information, taking into account costs, transportation, sizes, uses, qualities, and other marketing characteristics. With respect to the minimum prices, Canada was classified as a domestic market and received the same treatment as destinations in the United States. Canadian mine prices are taken from "Coal Statistics for Canada".

Copies of the price schedules and related information are available for the record. They are voluminous and I shall not go into their details at the present. Several examples may indicate the market situation adequately.

First, the case of Seattle, which is the largest city in Washington. In ordinary times, Seattle obtains most of its coal from the Washington fields, and also obtains tonnages from Utah, Wyoming and Montana. British Columbia enters this market. Washington large lump coals delivered by rail into this market at minima between \$5.00 and \$6.00 per ton. The minima were largely the market prices in 1941. Some truck coal came in at less than the rail price. Other coals were delivered as follows: Wyoming \$9.20, Utah \$9.50, and Montana \$8.25. There are differences in the qualities of these coals, Utah having the larger tonnages with the higher B.T.U. value. British Columbia lump coal had an average mine price between \$5.11 and \$5.44, the Island mines listing prices between \$5.68 and \$6.10. In other words, at Seattle the British Columbia coals had mine prices about the same as the delivered prices of Washington coals. They had mine prices from \$3.00 to \$4.00 under the delivered prices of Wyoming and Utah, which provided sufficient margin for transportation and entrance into the market in particular cases.

Spokane, Washington, and points north and east thereof, including points in Idaho (Market Area 252), purchase coal from British Columbia and Alberta. Most of the U. S. coal for this area ordinarily originates in Wyoming and Utah, which had delivered minimum prices of \$8.80 and \$9.10 respectively. Mine prices on Alberta bituminous lump averaged between \$4.12 and \$4.60 per ton. British Columbia lump, as stated previously, averaged

between \$5.11 and \$5.44. These figures indicate that both Alberta and British Columbia mine prices were considerably under the delivered prices of U. S. coals in the area and permitted sizable transportation charges for movement.

In the east, the high grade coal from the southern low volatile fields had a delivered minimum price at Portland, Maine, of \$6.20 for lump and \$5.26 for 3/4" slack. Nova Scotia had mine prices of \$4.04 to \$5.47 for lump, and \$2.52 to \$3.44 for slack. New Brunswick listed \$4.28 to \$4.90 for lump, and \$3.26 to \$3.60 for slack.

BY THE CHAIRMAN - I suppose you mentioned the date somewhere, when was that the mining price, what year?

A. In 1941, Sir.

DR. LAMB continues brief

The margins between the Canadian mine prices and the U.S. low volatile coals at Portland, Maine, were not as large as those between the Western Canadian coals and U.S. coals shown as examples in the Pacific Northwest. Better comparisons could be given on the eastern situation if delivered prices on Canadian coals at Portland, Maine, and other points had been available.

In general the marketing of Canadian coals in the United States was at points distantly located to U. S. sources of supply. These are points, however, which take a relatively small amount of coal. The great majority of markets in the United States are able to purchase their tonnages from U. S. mines at favorable price differentials as against the Canadian quotations.

Price comparisons for recent years are not satisfactory because of war disturbances. Similarly, the transition to peacetime is too new to forecast accurately for the future. However, noticeable advances have been made in U. S. operating methods during the war, and these indicate that the U. S. coals will continue to have favorable prices in the Canadian market. Also, the Canadian coals will have but a limited market in the United States.

DR. G. A. LAMB (Sworn) EXAMINED BY MR. FRAWLEY

Q. I only want to ask you a couple of questions with regard to Exhibit 224, which is the sheet comparing American coal with Nova Scotia coal. I want to be sure I quite understand what you have done. Let us take the first one. That means that in 1939, 6,012 tons of Nova Scotia coal, slack, was delivered into Acton, Ontario. That coal cost laid down \$7.50, and the competing coal was West Virginia which had a laid down cost of \$5.78?

A. Right.

Q. Therefore the total excess cost of the Nova Scotia coal over the United States coal was \$1.72, and with the subvention that was paid per ton, was \$1.66?

A. Right.

Q. That left the Nova Scotia coal at a disadvantage of 6¢, but apparently nevertheless the Nova Scotia coal went in?

A. That is right.

Q. And there was paid 6,012 times \$1.66 under subvention?

A. That is right.

Q. Then if we take another example of a shipment to Georgetown of nut slack. As I read the story from this exhibit 8,205.75 tons of Nova Scotia nut slack went into Georgetown. It had a laid down cost of \$5.99. In competition with U. S. coal from Clearfield which had a cost of \$5.42. Therefore the barrier to be overcome was 57¢, but that subvention was paid at \$1.64 a ton, which made a difference of \$1.07. In other words, this story without an explanation from the Fuel Board, (which I am sure they will give us, and I am going to ask them for it) would rather indicate on the face of it that they paid \$1.07 too much subsidy, if the subsidy was intended to enable the Nova Scotia coal to get into that particular account?

A. I judge the subventions are based on some standards, and when you get particular coals you may find variations.

Q. I am just assuming that the Order-in-Council provided that the Nova Scotia coal could meet the American competition. Then

we find what they got gave them \$1.07 more. Then as you go down you find that most cases were cases in which the subvention provided was not enough to enable the Nova Scotia coal to get into that market. Therefore, presumably, if the Nova Scotia coal went into those accounts they lost money. And we find in many many cases the Nova Scotia coal went in at losses of 42¢ a ton, 39¢ a ton, 93¢ a ton, and so on. I wanted to be quite clear. Those are just statistics which you or your staff were good enough to come to Ottawa and obtain from the records of the Coal Control, to place the economics of the American movement into Canada before the Commission.

A. That is right.

Q. There is no point in going through the whole list, but there is a fairly large tonnage of 298,000 tons that went into Levis, Quebec, which appears about a third of the way down on the sheet. That means, does it, that the laid down cost of the Nova Scotia coal, slack, was \$6.87, competing with West Virginia whose laid down cost was \$5.22, and that obviously left an excess of \$1.65; the subvention was \$1.01, and that left the Nova Scotia coal at a disadvantage of 64¢ a ton; but apparently the coal still went in.

A. That is right.

BY THE CHAIRMAN - The Commission want to thank you, Dr. Lamb, very very cordially indeed for coming down to Ottawa and picking up this very valuable information. You are in somewhat of a different position to the other gentlemen here from the United States. I understand you are employed by the United States Government, and I don't suppose the United States Government would take very particular notice of any thanks we would extend to them, but we do wish to extend to you the very very sincere appreciation of this Commission for the very valuable information you have given to us, and for the time it must have taken for you to compile all this.

BY MR. FRAWLEY - I might add that I had to go to Washington on several occasions, and I can subscribe very heartily to everything the Chairman has said, in expressing my appreciation

for the courtesies which Dr. Lamb extended to me when I was down there.

BY MR. FRAWLEY - I will now call upon Mr. Roy S. Kern, who represents 27 coal-carrying railroads of the United States of America. Mr. Kern would you please just introduce yourself, and then put your brief on record.

BY MR. ROY S. KERN - My name is Roy S. Kern, of Pittsburg, Pennsylvania, and with Mr. O. E. Schultz of New York I have prepared, at the instance of 27 class 1 coal-carrying railroads of the United States, a short brief, in which we have undertaken to indicate, with the Commission's approval, the extent to which the United States' railroads (or the 27 specific railroads for which I speak) have an interest in, and feel they perform an essential service for the Dominion of Canada.

If the Commission pleases, I would first like to state that the American Railroads appreciate deeply the privilege of coming before you and submitting what they think the Commission might view with approval from the standpoint of our railroad industry.

Some of the railroads, I might state, also operate in Canada, such as the Wabash, Pere Marquette and New York Central.

MR. KERN then presented his brief, as follows:

To the Royal Commission on Coal,
Ottawa, Ontario, Canada.

The Railroads of the United States named in statement marked Appendix A, attached hereto and made a part hereof, have been informed that your Honorable Commission is conducting a comprehensive investigation of the problems which now, or will in the future, confront the Dominion of Canada in the obtainance, either through domestic production or importations, of adequate supplies of coal adapted to the many and varied uses to which coal is put in the Dominion. These Railroads are the principal transporters of United States coal to the International boundary

for interchange with Canadian Railroads or to Great Lakes Ports from which it is trans-shipped by vessel to Canada. They, therefore, believe they have a direct and substantial interest in the Commission's investigations and beg leave to submit the following statement of facts and other representations in the hope that such may aid the Commission in its determinations and findings.

It is desired to state at the outset that this Brief will do no more than point out objectively and realistically some of the important facts and reasons showing the interests of the railroads, parties hereto, in the Commission's investigation; the necessary and important place which they occupy in the economy of the Dominion of Canada and to urge that the Commission make no findings or recommendations which will interfere with or curtail the use of the coal transportation facilities and services which have been provided by the United States Railroads and which are constantly available to the people and the industries of Canada for the movement of essential coal supplies both economically and expeditiously.

1. THE IMPORTANCE OF COAL TO CANADA

Coal (Anthracite and Bituminous) and Coke, manufactured from coal, constitute Canada's chief sources of energy and fuel. They exceed in importance all other kinds of mineral fuels and water power. The latest statistics available on this subject are those contained in Table 26 of "Coal Statistics for Canada for the calendar year 1942" issued by the Minister of Trade and Commerce. They show that the consumption of coal and coal-coke in 1942 was 43,030,000 short tons and that the coal equivalents of all other mineral fuels, viz: natural gas, fuel and gas oils, gasoline and kerosene, and of water power combined in the same year amounted to 38,868,000 short tons. It is thus apparent that Canada is dependent upon coal more than upon any or all other sources of fuel and power now available and it is, consequently, essential to the welfare of Canada and its people that

the nearest, most economical and best sources of supply be fostered and preserved. It is the anthracite of Eastern Pennsylvania and the bituminous coals of the great Appalachian Region in Pennsylvania, West Virginia, Maryland, Ohio, Virginia, Kentucky and Tennessee with billions of tons of coal reserves that constitute, at once, Canada's most dependable insurance against fuel shortages and an absolute guarantee that the necessary additional fuel and power, which the economically bright future of Canada must have, will be supplied. That the coals of the United States occupy this important and strategic place in Canada's economy was recognized and succinctly stated at page 8 of the 1942 coal report of the Minister of Trade and Commerce as follows:

"The Canadian Coal Areas are situated in the Eastern and Western Provinces, while the areas of densest population and greatest industrial development, in Ontario and Quebec, are more easily and economically supplied with coal from the nearer coalfields of Pennsylvania and Ohio."

The Railroads of the United States, and more particularly those parties to this Brief, are the only existing adequate means by which these "more easily and economically supplied" anthracite and bituminous coals may be transported to and beyond the international boundary and as such constitute an indispensable part of any sound plan or action designed to protect and promote Canada's coal supplies. Hereinafter some of the facilities of the United States Railroads, which were constructed for, and are in large part utilized in the handling of, Canada-bound coal, will be mentioned, but at this point it is desired to emphasize only that the existence of the railroad facilities between the coal mines and the international boundary which are capable of transporting coal to Canada in virtually unlimited quantities is, and should be considered by this Commission to be, a great asset to Canada without which there can be no positive assurance that Canada's coal requirements will be met year in and year out regardless of the conditions of world trade and commerce.

The proof of this broad statement is to be found in many of the statistics published by the Dominion's Minister of Trade and Commerce but more especially Table 24 of the report for the calendar year 1942. For convenient reference it is reproduced as Appendix B attached. It shows the annual consumption of coal in Canada for the years 1902 through 1942 classified by the principal countries of origination, i.e. Canada, United States of America and Great Britain. The significance of this tabulation is that throughout all of the forty-one year period the United States coals have been available to Canada according to the greatly variant requirements of the market and that they have served unflinching to replace or supplement importations from other countries especially Great Britain during periods when other sources of supply were interrupted or curtailed by reasons of war or for economic causes such as the great British Coal miners' strike of 1926. Thus it appears from this tabulation that during World War I British coal completely vanished from the Canadian market whereas consumption of coal imported from the United States rose from a prewar figure of approximately 14,000,000 tons to 21,675,000 tons in 1918. The experience of World War II was similarly striking for the consumption of British importations shrunk from in excess of a million tons annually to a mere 389,000 tons in 1942 whereas consumption of coal from the United States rose from about 11,000,000 to 24,140,000 tons. It is also of importance that the Commission should consider the fact that during those critical war periods the consumption of Canadian produced coal was not materially increased so that in the final analysis it was the United States coals alone which enabled Canadian industry to increase its productivity in keeping with the demands of the war effort and greatly enhanced the ability of the Canadian Railroads to meet the increased transportation burdens placed on them by the stimulus of war. The railroads, parties to this brief, do, therefore, earnestly urge that the Commission give consideration to the proven value to Canada of the constantly available United States coals and of the railroads which stand ready to transport

such to Canadian markets at all times and especially during periods of national emergency or peril.

It, of course, may be possible, and the figures in Appendix B seem to indicate, that during times of peace and unimpaired world trade Canada may import coal supplies from nations other than the United States and may substantially increase the production of coal within her boundaries, but it is respectfully submitted such results have been, and can be, obtained only through methods or by means which constitute barriers to, and discriminations against, the primary and most logical sources of coal supply, i.e. the producing areas of the United States herein described. It would, we think, be shortsighted, perhaps even dangerous, for Canada to adopt policies which would bar or curtail the marketing of United States coals within its boundaries as to so affect the productivity of mines in the United States and the coal carrying and handling facilities of railroads that they may not be able to respond instantaneously to Canada's needs if and when coals from other sources, that may have become entrenched in the market through legislative actions rather than by economic forces, be seriously curtailed or cut off.

II. COAL TRANSPORTATION AND HANDLING FACILITIES OF UNITED STATES RAILROADS ARE OF GREAT VALUE TO THE DOMINION OF CANADA.

The railroads, parties to this brief, operate generally in the Eastern District and the Pocahontas Region of the United States, and as a group they constitute the largest coal transportation agencies of this or of any other nation. Coal is by far the principal commodity transported by them and upon it they rely for approximately one-half of their total traffic and for about one-third of their gross revenue. Necessarily, these railroads are to a large extent designed and used for the economical and efficient transportation of coal in huge quantities. Oftentimes they have been characterized quite aptly as "coal carrying machines". It, therefore, follows that a great part of their investments in roadway, equipment and facilities were occasioned especially for the transportation of coal and it should be emphasized that all of the coal

carrying equipment and facilities of United States railroads are, and were intended to be, used indiscriminately in the handling of traffic to Canadian as well as to United States markets according to the needs of coal shippers and receivers.

It is not possible to compute or even to approximate accurately the proportion of the facilities and equipment owned and operated by United States railroads which were constructed and are required to serve the needs of the Canadian coal market, but there are certain data available that will convey to the Commission a general idea of the extent to which some of the facilities are used for that purpose.

Much of the coal exported from the United States to Canada moves by rail to ports on the Great Lakes and thence by vessel. There has been compiled from the records of the carriers, and attached hereto as Appendix C, a statement showing the total movement of cargo coal through Great Lakes ports for the decade 1935 through 1944. The statement also classifies the total lake cargo coal movements to indicate that which was trans-shipped to United States ports and that to Canadian ports. It is to be noted that the latter in 1943 constituted 70% and in 1944 28% of the totals. These, it should be understood, are overall averages. The proportions of Canada-bound coal to the total traffic differ at each dock and from year to year except that the docks at Charlotte, Oswego and Sodus Point, N.Y. on Lake Ontario, handle Canada-bound coal almost exclusively.

BY MR. FRAWLEY - 1943 was the high point Mr. Kern?

A. In that ten year period.

MR. KERN continues brief.

From the figures recited, it is apparent that currently an average of 30% of the utilized capacity of the facilities owned or operated by United States railroads for the transfer of coal from railroad cars to vessels at Great Lakes ports is required for the movement of coal to Canada via Lake. The cost of the car-dumping machines and other coal handling facilities on the twenty coal docks owned or operated by United States railroads at Great Lakes

ports and the lands supporting them is conservatively estimated at from 20 to 25 million dollars. Based upon utilization of thirty percent, the proportion of the total investment assignable to Canada-bound traffic is, therefore, from \$6,000,000 to \$7,500,000. These figures relate solely to the coal docks and do not include any part of large investments of railroads in the extensive yards and other facilities which have been constructed and are used exclusively to serve the docks nor do they include the cars and locomotives necessary to the transportation of the coal to the docks. Although the actual or approximate values or costs of the facilities other than coal docks are not immediately obtainable it is certain that collectively they exceed by many times the cost or value of the coal docks.

BY MR. FRAWLEY - I suppose it would be difficult to speculate on whether or not you would still need the same size docks even if you were not shipping that 30 percent to Canada?

A. We certainly would not need the same facilities if we were to lose 30 percent of the business.. Whether or not they would be maintained for any length of time might be questionable.

Q. Then you would say part of that, say 30 percent, is there because of the Canadian business?

A. Yes, I think that is a fair statement, because without the Canadian business the railroads would not have done a lot of things with respect to those particular facilities that they have done.

Q. If you had never had the Canadian business you would not have had that 20 to 25 million dollar investment?

A. It probably would not be as great as it is.

MR. KERN continues brief

And the Commission should also realize that the tonnage shipped in 1944 to Canada through Great Lakes ports was only about 60% of the total movement to Canada. The remaining 40%, amounting in 1944 to more than 11,000,000 tons moved via the many all-rail routes in connection with which United States carriers have expended vast sums of money to provide and maintain interchange facilities

(including car ferries and slip docks) with the Canadian Railroads at border points. They, of course, are used for the movement of other commodities to Canada and for traffic in the reverse direction, but the tonnage of Canada-bound coal greatly exceeds everything else.

Another indication of the extensive coal carrying facilities which United States railroads have made available, and maintain in part for Canada's benefit, is the number of coal carrying cars owned by the railroads of the Eastern, Allegheny and Pocahontas Districts on which most of the coal exported to Canada originates. As of August 15, 1945, those roads had in operation a total of 571,980 coal carrying cars with an aggregate coal carrying capacity of about 32,000,000 net tons. These cars are so utilized under car service rules that they constitute what may be termed a pool out of which Canadian coal receivers may and do secure equipment for the transportation of their coal supplies when and as needed.

The large ownership of cars, especially the coal-carrying types, by United States railroads is, because of the substantial movement of coal to Canada, of incalculable value to the Dominion of Canada in another way. After cars of coal are made empty at Canadian destinations they are available for loading by Canadian rail shippers and it is common knowledge that they are so utilized to the extent necessary to make up deficiencies in the supplies of cars owned by Canadian railroads. In this manner the capacity and usefulness of Canadian railroads are greatly enhanced without any capital risk or investment on their part.

BY THE CHAIRMAN - Does not that only refer to war times, that depletion or insufficiency in supplies of cars by Canadian railways, is it not only a war time matter?

A. It was probably greater in Canada during the war, but it exists all the time.

Q. I didn't know. I did understand that the Canadian railways before the war were well equipped with cars and that kind of thing, to take care of all of their business.

A. That may well have been, but the records show the fact that there were more cars normally on Canadian railroads than Canadian railroads owned.

BY COMMISSIONER McLURIN - You are talking of coal cars?

A. Yes.

Q. Is it not a fact that you had nineteen thousand more Canadian cars than we had American cars; that for a period of about 1-1/2 years the American railways were in debt to the Canadian railways for cars. So if the American railways meet our needs in respect to coal cars, and we meet their needs with respect to box cars..

BY COMMISSIONER MORRISON - You couldn't expect Canadian coal cars there because we don't ship coal there.

BY THE CHAIRMAN - A sort of reciprocal arrangement between railways.

BY COMMISSIONER McLURIN - The point you are making is that our Canadian railways have coal carrying cars only to a limited extent?

A. That is probably true. You equip a railway according to your needs, but a coal carrying car can be used for a lot of other purposes than the carriage of coal.

Q. Pulp wood, and gravel?

A. Yes, and sand, and pig iron.

BY MR. FRAWLEY - You say the American railways find it profitable to keep their own coal cars in their own traffic, and pay the rental fee.

BY COMMISSIONER McLURIN - What is the rental?

A. \$1.00 a day.

Q. What is a car worth?

S. I'm sure I don't know, but the dollar a day is approved by the I.C.C. to be a nominal rental.

A. We might pay the rental instead of owning the cars.

BY MR. FRAWLEY - The American railways want to get their cars back as quickly as possible. Do they permit the Canadian carriers to use them as long as they pay the rental?

A. They are obligated to load it in the direction of the owned railway. That, however, is something that can be played around with pretty effectively.

Q. Mr. Matheson says that the rental is \$1.15 a day, that that is the regular basis. There was some arrangements worked out with O.D.T. about cars.

A. The O.D.T. has worked out a lot of arrangements.

BY THE CHAIRMAN - Mr. Frawley, I understand that there are no other witnesses available for today.

A. No.

Q. Do you think we might sit later and finish with Mr. Kern?

A. I am sure Mr. Kern will be glad to.

MR. KERN continues brief

To demonstrate the fact stated, we need but call attention to the situation on August 15, 1945. Records of the Association of American Railroads show that as of August 15, 1945, Canadian railroads owned 21,075 hopper and gondola cars and that there were on the lines of railroads operating wholly in Canada a total of 33,754 cars of these classes, indicating that the number of cars in the possession of, and being used by, the Canadian railroads was 160.2% of the number which they owned. The difference between the cars on and the cars owned by Canadian Railroads of 12,679 represent cars owned by railroads of the United States chiefly those parties to this brief. This condition, it should be stated, is not unusual but is fairly representative of the situation as it has existed for some time past. Just what effect the withdrawal of United States coal cars from Canadian railroads would have may not be foretold accurately, but certainly it would greatly diminish the overall capacity and usefulness of Canadian railroads. United States railroads, of course, have no intention to discontinue the interchange of equipment with Canadian railroads but, should the movement of coal to Canada be stopped or appreciably curtailed, the effect upon Canadian railroads would be about the same as the discontinuance of interchange arrangements.

The foregoing is far from a complete discussion or description of all of the coal handling facilities owned and operated by the United States railroads and of the benefits which Canada derives from them in obtaining its coal supplies and in

other ways, but it is deemed to be sufficient to demonstrate their importance to Canada and to show that without the United States Railroads there could be no such thing as an assured, adequate and regular coal supply in Canada, particularly in the "areas of densest population and greatest industrial development on Ontario and Quebec".

III. CANADIAN IMPORTATIONS OF UNITED STATES COAL
DURING WORLD WAR II.

Hereinbefore we have mentioned that during times of war Canada has relied greatly upon the United States for coal supplies necessary to sustain her wartime economy. It is now our purpose to describe in somewhat greater detail the extent to which Canada's importations of United States coals increased during World War II and the fact that percentagewise such increases greatly exceeded the increase in production at mines in the United States notwithstanding the constant and widespread coal shortages in this country throughout the period of the war.

BY MR. FRAWLEY - When you say "this country" there, you mean your own country?

A. Yes.

Q. That is, where this was written, not where it is being read?

A. Yes.

MR. KERN continues brief

Appendix D attached hereto and made a part hereof, shows the situation with respect to bituminous coal during the decade 1935 through 1944. The percentages are computed using the 1935 figures as the base. It is to be noted that in 1944 there was produced in the United States 620,000,000 tons of bituminous coal representing 166.5% of the 1935 production. Canadian importations in 1944 were 269.6% of the importations in 1935. Thus Canada shared in the United States increased production to a very much greater degree than did the industries and consumers in the United States notwithstanding the fact aforesaid that throughout the period of the war coal shortages in the United States were practically continuous and at some times and in some places very acute.

In comparison to the great increase in production in the United States, and the liberal share of it exported to Canada, it should be noted that Appendix D shows the production in Canada in 1944 was but 122.5% of the 1935 production and also that Canada's 1944 production was less than in any year back to and including 1940. A comparison of the statistics in 1940 and 1944, the first and last complete years during which Canada was at war, is also significant. In 1940, the bituminous coal production in the United States was 453,000,000 tons and in 1944 it was 620,000,000 tons, an increase of 167,000,000 tons or 36%. On the other hand, Canada's production in 1940 was 17,566,000 tons and in 1944 17,010,000 tons, a decline of 556,000 tons, or 3.2%. Canada's importations of bituminous coal from the United States in 1940 were 13,536,000 tons and rose in 1944 to 24,366,000, an increase of 10,830,000 tons, or 80%. From this it is plain that despite the enormous war time demands for coal in Canada conditions in the Canadian mining industry were such that coal production fell off. Actually Canada's coal production after reaching a peak of 18,865,000 tons in 1942 dropped to 17,010,000 tons in 1944 during which period importations of bituminous coal from the United States increased from 21,016,000 tons to 24,366,000 tons. It is thus apparent that when Canada needs coal the United States supplies it and the entire record of wartime control boards in the United States, more especially the office of Defense Transportation and the Solid Fuels Administration for War, contains no instance of substantial curtailment of the exportation of coal to Canada. On the other hand, both of those agencies issued and enforced many regulations affecting the distribution and consumption of coal in the United States to the end that acute shortages might be alleviated and the available coals utilized in the best interests of the war effort. It was principally because of the almost total lack of controls or limitations on the movement of bituminous coal to Canada that the showing on Appendix D, so favorable to Canada, was made possible.

The situation with respect to Anthracite is depicted upon Appendix E attached. It shows that whereas the total rail shipments of anthracite in 1944 were 119.2% of 1935, the Canadian importations in 1944 were 251.2% of the 1935 figure. Anthracite shortages in the Eastern States were throughout the war, and even now are very acute and the increased exportations to Canada if retained in this country would have done and would do much to relieve the situation. Notwithstanding the great need for anthracite in the United States, there was no governmental act in this country which in any way discriminated against Canadian receivers; on the contrary Canada, in many respects, was greatly preferred over the United States' domestic market. This, we submit, is the only possible reason why Canada received relatively more of the increased shipments from the collieries than did the inadequately supplied markets of the United States.

The Commission, it is hoped, will in its deliberations also take into account the fact that throughout the period of the war the railroads of the United States were required to handle the heaviest volume of traffic in their history and that they were at times strained almost to the breaking point. Notwithstanding this, neither the railroads nor the governmental regulatory bodies at any time took any actions that might have relieved the transportation situation in this country by curtailing the shipments to Canada. Nor did the United States railroads deprive Canadian roads of the use of their cars when there were severe shortages of equipment throughout coal producing areas which might have been relieved had it been possible for Canadian railroads to function with a supply of cars no greater than the number which they owned.

To avoid the possibility of misunderstanding or misconstruction of these remarks, it is desired to make clear that nothing herein stated is, or is intended to be, a criticism of the policies and actions of the United States during the war which made it possible for Canada to meet its coal and transportation requirements. Those policies, under all the circumstances, were eminently proper and would, it is certain, be repeated should like conditions recur.

In mentioning these facts, we do, however, want to assert, and we hope the Commission will realize, that the huge reserves of all kinds of coal and the great capacity of the railroad facilities in the United States are an ever present asset to Canada upon which she may in the future, as in the past, rely implicitly for coal supplies so essential to Canada's welfare and future prosperity. It would indeed be a grave injustice to the railroads and coal industry of the United States and more especially to the people of Canada should there ever be any actions taken either by Canada or by the United States which would in any way or to any extent interfere with the ability of the coal industry in the United States to produce and the railroads to handle the great tonnages of coal which Canada must import at any time but particularly during periods of war or when domestic production and importations from Britain are seriously curtailed. We hope and confidently believe that this honorable Commission will not make recommendations which would, whether by design or accident, create or tend to create such an unfortunate condition.

IV. UNITED STATES RAILROADS' COAL FREIGHT RATES WERE NOT INCREASED DURING WORLD WAR II.

As a final observation, the United States railroads, parties to this brief, wish to point out that despite the demands which were made upon them during the war period, the greatly increased costs of materials and supplies, substantial increases in wages, and unprecedently high taxes, their freight rates on coal to Canada or to gateway cities are now at the level established on November 15, 1937 on bituminous coal and on March 28, 1938 on anthracite. They were subjected to no advances during World War II except a temporary emergency increase of only five cents (5¢) per net ton which was in effect on movement in the United States as well as to Canada for a period of fourteen (14) months ending May 15, 1943, under authority of the Interstate Commerce Commission in ex parte 148.

The stability of the railroad coal rate level and the

absence of increases notwithstanding the exceptionally high railway operating costs inured very definitely to the benefit of Canada, and aided appreciably in her successful efforts to avoid wartime inflation.

V. CONCLUSIONS

The Commission will gather from the facts and representations herein set forth that the railroads of the United States, parties to this brief, consider the movement of coal to Canada, both via all-rail and rail-lake routes, as valuable and highly desirable traffic, and they are fully cognizant that the revenues derived therefrom contribute materially to their welfare and prosperity. To say that these considerations were not among motivating reasons for the preparation of this brief would manifestly be less than frank, but it is equally true, and we trust the Commission will agree, that the services and facilities which the railroads of the United States have developed and maintain in whole or in part for the economic and efficient transportation of coal to Canada in practically unlimited quantities during all seasons of the year and at speeds which reduce costly storage and rehandling to a minimum are an asset to the industry and people of Canada that should not be underestimated.

Wherefore, the railroads of the United States, parties to this brief, urge most earnestly that the Commission in its findings and recommendations include -

(1) That the vast coal deposits in the United States, especially the anthracite region of Eastern Pennsylvania and the bituminous coal producing fields of the Appalachian area, are the nearest, surest, most economical and best sources of coal supply for Canada, particularly the sections "of densest population and greatest industrial development, in Ontario and Quebec."

BY MR. FRAWLEY - Do those quotations mean anything there?

A. Yes, they came out of the quotation which is on page 3.

Q. From the Minister of Trade and Commerce?

A. Yes.

MR. KERN continues brief

(2) That the railroads of the United States, operating between the coal fields described and the international boundary, are and have been at all times ready and able to transport Canada's requirements of coal produced in the United States both economically and efficiently, and because thereof constitute an indispensable factor in any economic plan designed to promote the growth and prosperity of Canada.

(3) That any action by Canadian authorities designed to prevent or curtail the importation of United States coals would tend to so reduce the coal carrying equipment and capacity and hinder the development of United States railroads as to threaten their ability to meet transportation demands should Canada again be forced by war or other crises to the same degree of dependence upon United States coals as in World Wars I and II.

(4) That no action be taken by Canadian authorities which will prevent or curtail the importation of United States coals by Canada.

(5) That United States coals be permitted to compete in Canadian markets on an equality with all coals wherever produced.

Respectfully submitted,

(Sgd) O. E. Schultz, 143 Liberty St.,
New York 6, N.Y.

(sgd) Roy S. Kern, 836 Wabash Building,
Pittsburg 22, Pa.

Agents for United States Railroads,
Parties hereto.

APPENDIX ALIST OF UNITED STATES RAILROADS, PARTIES TO THIS BRIEF

The Baltimore and Ohio Railroad Company
Bessemer and Lake Erie Railroad Company
The Central Railroad Company of New Jersey
(Shelton Pitney and Walter P. Gardner, Trustees)
The Chesapeake and Ohio Railway Company
The Delaware and Hudson Railroad Corporation.
The Delaware, Lackawanna and Western Railroad Company
Erie Railroad Company
Lehigh and New England Railroad Company
Lehigh Valley Railroad Company
Louisville and Nashville Railroad Company
The Monongahela Railway Company
Montour Railroad Company
The New York Central Railroad Company
The New York, Chicago and St. Louis Railroad Company
New York, Ontario and Western Railway Company
(Raymond L. Gebhardt and Ferdinand J. Seighardt, Trustees)
Norfolk and Western Railway Company
The Pennsylvania Railroad Company
Pere Marquette Railway Company
The Pittsburg & Shawmut Railroad Company
The Pittsburg and Lake Erie Railroad Company
The Pittsburg and West Virginia Railway Company
The Pittsburg, Shawmut and Northern Railroad Company
(John L. Dickson, Receiver)
Reading Company
The Virginian Railway Company
Wabash Railroad Company
Western Maryland Railway Company
The Wheeling and Lake Erie Railway Company

APPENDIX B.

TABLE 24 - ANNUAL CONSUMPTION OF COAL IN CANADA, 1902-1942

Imported coal "entered for consumption"

| <u>Calendar Year</u> | <u>Canadian x Short tons</u> | <u>%</u> | <u>From U.S.A. Short tons</u> | <u>From Great Britain Short Tons</u> |
|--------------------------|----------------------------------|----------|---------------------------------------|--|
| 1902 | 5,376,413 | 53.1 | 4,656,286 | 101,726 |
| 1903 | 6,005,735 | 47.3 | 6,520,931 | 184,593 |
| 1904 | 6,697,183 | 47.9 | 7,238,869 | 85,687 |
| 1905 | 7,032,661 | 49.4 | 7,233,738 | 68,500 |
| 1906 | 7,927,560 | 50.5 | 7,787,338 | 67,014 |
| 1907 | 8,617,352 | 45.0 | 10,588,697 | 54,325 |
| 1908 | 9,156,478 | 47.3 | 10,203,335 | 97,514 |
| 1909 | 8,913,376 | 47.9 | 9,805,253 | 67,671 |
| 1910 | 10,532,103 | 50.2 | 10,545,451 | 51,541 |
| 1911 | 9,822,749 | 40.5 | 14,510,129 | 49,963 |
| 1912 | 12,385,696 | 46.0 | 14,557,124 | 38,668 |
| 1913 | 13,450,158 | 42.6 | 18,145,769 | 37,825 |
| 1914 | 12,214,403 | 45.5 | 14,687,853 | 33,101 |
| 1915 | 11,500,480 | 48.1 | 12,450,796 | 15,098 |
| 1916 | 12,348,036 | 41.3 | 17,576,202 | 4,401 |
| 1917 | 12,313,603 | 37.2 | 20,848,009 | 9,451 |
| 1918 | 13,160,731 | 37.8 | 21,674,826 | 3,761 |
| 1919 | 11,611,168 | 40.3 | 17,292,913 | 344 |
| 1920 | 14,025,566 | 42.9 | 18,752,981 | |
| 1921 | 12,715,734 | 41.1 | 18,300,081 | 1,591 |
| 1922 | 13,044,352 | 50.2 | 12,255,555 | 765,980 |
| 1923 | 15,070,962 | 41.8 | 20,417,239 | 572,570 |
| 1924 | 12,529,358 | 42.8 | 16,405,344 | 317,112 |
| 1925 | 12,125,290 | 42.6 | 15,744,957 | 604,117 |
| 1926 | 15,086,296 | 47.7 | 16,204,405 | 287,299 |
| 1927 | 15,944,983 | 46.7 | 17,266,434 | 907,220 |
| 1928 | 16,487,807 | 50.0 | 15,830,688 | 682,755 |
| 1929 | 16,387,461 | 48.0 | 16,780,452 | 843,502 |
| 1930 | 14,052,671 | 43.3 | 16,971,933 | 1,144,861 |
| 1931 | 11,682,779 | 47.7 | 11,793,798 | 987,442 |
| 1932 | 11,212,701 | 49.0 | 9,889,866 | 1,727,716 |
| 1933 | 11,456,273 | 51.5 | 8,865,935 | 1,942,875 |
| 1934 | 13,236,406 | 51.1 | 10,580,710 | 1,981,116 |
| 1935 | 13,306,303 | 53.1 | 9,618,518 | 1,822,500 |
| 1936 | 14,508,652 | 53.3 | 10,801,643 | 1,498,656 |
| 1937 | 15,172,729 | 51.5 | 12,574,574 | 1,211,052 |
| 1938 | 13,800,094 | 52.5 | 10,754,747 | 1,257,887 |
| 1939 | 14,902,915 | 50.7 | 12,838,347 | 1,099,419 |
| 1940 | 16,666,234 | 49.5 | 15,509,778 | 1,514,458 |
| 1941 | 17,227,151 | 46.2 | 19,332,479 | 693,902 |
| 1942 | 17,725,761 | 42.0 | 24,140,841 | 388,948 |

TABLE 24 - continued

| <u>Calendar Year</u> | <u>Total # Short tons</u> | <u>%</u> | <u>Total Short tons</u> | <u>Per capita</u> |
|--------------------------|-------------------------------|----------|-----------------------------|-----------------------|
| 1902 | 4,734,559 | 46.9 | 10,110,972 | 1.840 |
| 1903 | 6,678,450 | 52.7 | 12,684,185 | 2.245 |
| 1904 | 7,297,482 | 52.1 | 13,994,665 | 2.402 |
| 1905 | 7,215,446 | 50.6 | 14,248,107 | 2.374 |
| 1906 | 7,758,325 | 49.5 | 15,685,885 | 2.573 |
| 1907 | 10,549,503 | 55.0 | 19,166,855 | 2.990 |
| 1908 | 10,195,424 | 52.7 | 19,351,902 | 2.921 |
| 1909 | 9,711,826 | 52.1 | 18,625,202 | 2.739 |
| 1910 | 10,438,123 | 49.8 | 20,970,226 | 3.001 |
| 1911 | 14,424,949 | 59.5 | 24,247,698 | 3.364 |
| 1912 | 14,549,104 | 54.0 | 26,934,800 | 3.645 |
| 1913 | 18,132,387 | 57.4 | 31,582,545 | 4.138 |
| 1914 | 14,637,920 | 54.5 | 26,852,323 | 3.408 |
| 1915 | 12,406,212 | 51.9 | 23,906,692 | 2.995 |
| 1916 | 17,517,820 | 58.7 | 29,865,856 | 3.733 |
| 1917 | 20,810,132 | 62.8 | 33,123,735 | 4.110 |
| 1918 | 21,611,010 | 62.2 | 34,771,832 | 4.268 |
| 1919 | 17,236,269 | 59.7 | 28,847,437 | 3.471 |
| 1920 | 18,668,741 | 57.1 | 32,694,307 | 3.821 |
| 1921 | 18,258,387 | 58.9 | 30,874,121 | 3.525 |
| 1922 | 12,962,189 | 49.8 | 26,006,541 | 2.916 |
| 1923 | 20,967,971 | 58.2 | 36,038,933 | 4.000 |
| 1924 | 16,714,143 | 57.2 | 29,243,501 | 3.198 |
| 1925 | 16,331,971 | 57.4 | 28,457,261 | 3.062 |
| 1926 | 16,565,555 | 52.3 | 31,651,851 | 3.349 |
| 1927 | 18,177,303 | 53.3 | 34,122,286 | 2.541 |
| 1928 | 16,515,582 | 50.0 | 33,003,389 | 3.356 |
| 1929 | 17,724,132 | 52.0 | 34,111,593 | 3.401 |
| 1930 | 18,412,039 | 56.7 | 32,464,710 | 3.180 |
| 1931 | 12,828,327 | 52.3 | 24,511,106 | 2.362 |
| 1932 | 11,654,492 | 51.0 | 22,867,193 | 2.177 |
| 1933 | 10,808,962 | 48.5 | 22,265,235 | 2.085 |
| 1934 | 12,651,168 | 48.9 | 25,887,574 | 2.392 |
| 1935 | 11,735,835 | 46.9 | 25,042,138 | 2.290 |
| 1936 | 12,719,515 | 46.7 | 27,228,167 | 2.469 |
| 1937 | 14,268,585 | 48.5 | 29,441,314 | 2.648 |
| 1938 | 12,493,707 | 47.5 | 26,293,801 | 2.346 |
| 1939 | 14,479,668 | 49.3 | 29,382,583 | 2.597 |
| 1940 | 17,036,090 | 50.5 | 33,702,324 | 2.960 |
| 1941 | 20,026,082 | 53.8 | 37,253,233 | 3.238 |
| 1942 | 24,529,361 | 58.0 | 42,255,122 | 3.626 |

x The sum of Canadian coal mine sales, colliery consumption, coal supplied to employees, and coal used in making coke, etc., less the tonnage of coal exported.

Includes small tonnages from countries other than Great Britain and the United States. Deductions have been made to take account of foreign coal re-exported from Canada and bituminous coal ex-warehoused for ships' stores.

APPENDIX C

STATEMENT OF ANTHRACITE AND BITUMINOUS COAL TRANS-
SHIPPED FROM LAKE PORTS IN THE UNITED STATES TO
UNITED STATES AND CANADIAN PORTS, FOR YEARS 1935
to 1944 INCLUSIVE.

| Year | TO United States Ports | | TO Canadian Ports | | TOTAL Net Tons |
|------|---------------------------|---------------|----------------------|---------------|-------------------|
| | Net Tons | % of Total | Net Tons | % of Total | |
| 1935 | 29,312,749 | 81.21 | 6,780,312 | 18.79 | 36,093,061 |
| 1936 | 37,953,608 | 83.43 | 7,535,845 | 16.57 | 45,489,453 |
| 1937 | 35,890,083 | 79.04 | 9,518,826 | 20.96 | 45,408,909 |
| 1938 | 28,216,247 | 78.89 | 7,549,511 | 21.11 | 35,765,758 |
| 1939 | 33,810,461 | 80.73 | 8,070,157 | 19.27 | 41,880,618 |
| 1940 | 38,541,851 | 77.93 | 10,915,716 | 22.07 | 49,457,567 |
| 1941 | 40,036,296 | 74.85 | 13,451,974 | 25.15 | 53,488,270 |
| 1942 | 37,548,619 | 71.72 | 14,809,274 | 28.28 | 52,357,893 |
| 1943 | 35,195,480 | 67.62 | 16,850,219 | 32.38 | 52,045,699 |
| 1944 | 43,320,861 | 71.98 | 16,859,794 | 28.02 | 60,180,655 |

AUTHORITY -- United States Rail Carriers' Records.

APPENDIX D

BITUMINOUS COAL PRODUCTION IN THE UNITED STATES, CANADIAN
IMPORTATIONS FROM THE UNITED STATES, AND CANADIAN COAL
PRODUCTION FOR YEARS 1935 TO 1944, INCLUSIVE.

NET TONS

| Year | U.S.A. Bituminous Production | Percent of 1935 | Canadian Importations from U.S.A. | Per- cent of 1935 | Canadian Coal Production | Percent of 1935 |
|------|------------------------------------|--------------------|---|-------------------------|--------------------------------|--------------------|
| 1935 | 372,373,000 | 100.0 | 9,038,902 | 100.0 | 13,888,006 | 100.0 |
| 1936 | 439,088,000 | 117.9 | 9,906,101 | 109.6 | 15,229,182 | 109.7 |
| 1937 | 445,531,000 | 119.6 | 12,047,788 | 133.3 | 15,835,954 | 114.0 |
| 1938 | 348,545,000 | 93.6 | 9,559,726 | 105.8 | 14,294,718 | 102.9 |
| 1939 | 393,065,000 | 105.6 | 9,974,908 | 110.4 | 15,692,698 | 113.0 |
| 1940 | 453,245,000 | 121.7 | 13,536,634 | 149.7 | 17,566,884 | 126.5 |
| 1941 | 514,149,000 | 138.1 | 18,194,959 | 201.3 | 18,225,921 | 131.2 |
| 1942 | 582,693,000 | 156.5 | 21,016,470 | 232.5 | 18,865,030 | 135.8 |
| 1943 | 590,177,000 | 158.5 | 24,269,585 | 268.5 | 17,859,057 | 128.6 |
| 1944 | x620,000,000 | 166.5 | 24,366,928 | 269.6 | 17,010,117 | 122.5 |

x - Preliminary.

AUTHORITY: United States Bituminous Coal Production) United States
Canadian Importations from United States) Bureau of Mines,
Dept. of Interior

Canadian Coal Production -- Dominion Bureau of Statistics
Ottawa.

APPENDIX E.

TOTAL PENNSYLVANIA ANTHRACITE PRODUCTION SHIPPED BY
RAIL AND CANADIAN ANTHRACITE IMPORTATIONS FROM THE
UNITED STATES FOR YEARS 1935 to 1944, INCLUSIVE.

NET TONS

| <u>Year</u> | <u>Total Production Shipped by Rail</u> | <u>Percent of 1935</u> | <u>Canadian Importations from U.S.A.</u> | <u>Percent of 1935</u> |
|-------------|---|----------------------------|--|----------------------------|
| 1935 | 44,643,322 | 100.0 | 1,670,085 | 100.0 |
| 1936 | 46,979,604 | 105.2 | 1,685,848 | 100.9 |
| 1937 | 45,024,370 | 100.9 | 2,003,317 | 120.0 |
| 1938 | 39,648,028 | 88.8 | 1,977,002 | 118.4 |
| 1939 | 43,809,200 | 98.1 | 2,605,765 | 156.0 |
| 1940 | 43,023,748 | 96.4 | 2,643,588 | 158.3 |
| 1941 | 46,798,817 | 104.8 | 3,310,670 | 197.6 |
| 1942 | 50,549,766 | 113.2 | 4,422,499 | 264.8 |
| 1943 | 49,877,659 | 111.7 | 4,073,731 | 243.9 |
| 1944 | 53,215,047 | 119.2 | 4,194,716 | 251.2 |

AUTHORITY: Rail Shipments - United States Rail Carriers' Records.

Canadian Importations -- Dominion Bureau of Statistics
Ottawa

BY MR. KERN - Now if the Commission pleases, today I received a letter from Mr. E. A. Drake, President of Lake Erie Coal Company, Limited, Walkerville, Ontario. dated October 1st, 1945, which I would like to read into the record.

Mr. Kern then read the letter referred to, as follows:

"Mr. Roy S. Kern,
836 Wabash Building,
Pittsburg 22, Pa.

Dear Mr. Kern:

I received a copy of the brief which you submitted to the Royal Commission on Coal of the Dominion of Canada, and I find it most interesting.

I am wondering if the Commission appreciate the fact that the large tonnage of coal shipped to Lake Erie and Lake Ontario ports must be handled in eight months and in many cases in only seven months of navigation, and the unusual fact that United States mines are in position to supply such a large tonnage in such a short shipping period, and then find a market for their coal for the remaining months.

At any rate Canada is benefitted in as much that four to five month's coal is stored on docks in Canada for winter supply.

We handle upwards of 500,000 tons per lake season from Lake Erie ports to Rondeau, Ontario.

Yours very truly,

(sgd) E. A. Drake."

MR. ROY S. KERN (Sworn) EXAMINED BY MR. FRAWLEY

Q. Mr. Kern, have you enough information to tell me what the average loadings of coal trains are, in tons per train?

A. They differ materially on different railroads, due to railroad policies, and to the nature of their lines.

Q. Grades, I suppose?

A. Yes.

Q. Operating conditions?

A. Yes, and also type of locomotives they use, and the cars which they have. An average solid coal train ought to contain something over 5,000 tons pay load.

Q. I don't know whether you are quite prepared to discuss the next question, but it has been raised in one of our areas that coal should move from Western Canada to central Canadian markets in solid trains, and in that way a better rate than the existing \$8.00 per ton rate could be obtained. Do you have any United States rates premised on solid train movements?

A. Not on coal.

Q. I am told there is a rate on molasses.

A. Black Strap Molasses, yes.

BY THE CHAIRMAN - Did we not get in one of our briefs that that was the reason why they could transport coal so cheaply, in train load lots?

BY MR. FRAWLEY - But there is no train load rate.

BY COMMISSIONER McLAURIN - There must be some method of computing it.

EXM. BY MR. FRAWLEY (continued)

Q. You say coal is moved in train load lots?

A. Yes, to a relatively small degree or percentage, when you consider all the trains that are operated now. A coal railway may not have anything else to put in a train.

Q. Take coming from West Virginia to tide water?

A. But not all of their business would be solid trains, whatever business they had out of their yards other than coal would be put into those trains.

Q. I suppose it is fairly obvious that it is more economical, or is it more economical to move coal in solid trains from destination to tide water, or to lake port, or is it just as economical to make the train consist of some coal and some other commodities?

A. The over-all picture is that it is probably more economical for a railroad to operate from day to day with the traffic it has, whether coal or not.

BY THE CHAIRMAN - It depends entirely on whether the whole train load is going to the same destination without interference on the way?

BY COMMISSIONER MORRISON - Mr. Frawley, you have not established Mr. Kern as a freight rates expert. I would be very much interested to know if that is his particular line, to develop a question of this nature.

BY MR. FRAWLEY - I am in the position where I am trying to make the most of what I have.

EXM. BY MR. FRAWLEY (continued)

Q. Do you come out of the operating department of the railway?

A. No, the traffic department.

Q. Does Mr. Schultz come out of the operating department?

A. No, he and I are of the same nature.

Q. You say you come out of the traffic department?

A. Yes.

Q. Then you should be able to discuss rates.

BY COMMISSIONER MORRISON - I am not suggesting that he can't, but I was interested to know.

EXM. BY MR. FRAWLEY (continued)

Q. I want to call to your attention what Mr. McElvany told us yesterday. He said at page 27 of Exhibit 214 - "Lake cargo coal generally moves in solid train load lots of over 100 cars each through from one assembly yard to one destination, without intermediate switching and with a minimum of switching at the destination lake ports. This latter is so because shipments are handled under consignment names instead of in individual consignee accounts and these consignment names are issued and policed by a carrier maintained organization, Ore & Coal Exchange at Cleveland, Ohio, which constantly endeavors to hold such consignments to a minimum." You would agree with that?

A. I agree that Mr. McElvany has probably stated correctly the aims of the operating officers of the railway, but I don't think they attain those ends to the extent that that language might imply.

Q. Would you say there is any economy in moving the traffic from one assembly yard to one destination?

A. If that were not the most economical and efficient way of

Q. And it would seem to the layman that to move from one assembly yard to one destination is in itself an economy?

A. It is the economy that always goes with great volume.

Q. And then if there is no intermediate switching, that would be an economy?

A. Oh yes.

BY COMMISSIONER MORRISON - Does it seem that way to you Mr. Kern?

A. The less switching the more economy, because switching is onerous and expensive.

EXM. BY MR. FRAWLEY (continued)

Q. "With a minimum of switching at the destination lake ports". That would also be an economy?

A. Yes, but the minimum at a Lake port is pretty close to the maximum any place else.

Q. Then you say a minimum of switching at the Lake ports might mean a lot of switching?

A. Yes, but he was talking about a minimum for Lake cargo coal.

Q. And then he speaks of being "handled under consignment names instead of in individual consignee accounts". Does that also work out an economy?

A. I don't know that economy is the right word; it is a convenience.

Q. Does it not save expense?

A. It probably does save an expense in running around from one place to another to get to the boat. Also demurrage; you release the cars where they are being dumped.

Q. To the lay-mind those things which Mr. McElvany has itemized would seem to add up to the fact that moving coal in solid trains is more economical than moving it in trains consisting partly of coal and partly of other commodities. Do you agree with that?

A. No, as a general proposition I don't. But as far as the physical handling of coal is concerned, and the element of motive power, it would probably cost you more than if you had 50 cars of coal and 50 lighter cars.

BY THE CHAIRMAN - If switching is one of the troublesome things in the economy of railroading, I cannot see why train load lots where there is very little switching is not more economical than

the other way?

A. You don't say train load lots to a given boat. It is only a train load lot until it gets to the outer yard serving the docks. Usually the docks are served by two yards.

Q. Whichever way they come, and with one car or with 100?

A. That is correct. Then the trains are broken down and run from little cuts over to the docks if and when they are ordered.

EXM. BY MR. FRAWLEY (continued)

Q. What is the relationship between a train load and a cargo?

A. The average is around 55.

Q. 55 thousand?

A. No, tons per car, on Lake cargo coal it is nearer 60; and a train might contain as many as 100 of those cars if it is running over a good railroad with a good locomotive.

Q. Have the coal operators of the United States endeavored to obtain a reduction of the rate per ton on the promise that coal should or could be transported in train load lots?

A. Coal operators, so far as I know, have never asked the railways for a train load rate. But every case that has ever come up before the Interstate Commerce, as in the Lake cargo coal cases, they can show that the cost in handling this might be less than in handling some other by reason of the high volume. They invariably use that, and the Interstate Commerce take that into account.

Q. You mean coal moving over railways and destined for Lake ports?

A. Yes.

Q. Tell me, is there any dissatisfaction at the moment in the coal industry over freight rates on moving coal?

A. There has been less dissatisfaction in the last four or five years than in any of my 27 or 28 years of experience before. Of course that is obvious, as they have not had any trouble finding markets.

Q. In this country we are endeavoring, and do move coal about 2000 miles. We are endeavoring to get coal from Alberta into Ontario, so we are scraping the bottom of the barrel as regards

ways and means of getting it as cheaply as possible down there.

A. We cannot give you any help on 2000 mile hauls, because we don't have them.

BY THE CHAIRMAN - The railroads you represent are mostly doing great business in coal handling?

A. Coal is their principal commodity, that is we have more coal than any other commodity.

Q. Apart from that, is there not some sort of financial intermingling with some of your railways down there and the owners of the mines?

A. That is something I don't know enough about to say either yes or no.

Q. The Chesapeake & Ohio Railway Company are people who have large interests in coal, we understand?

A. Aside from the interest of carrying coal?

Q. Yes?

A. It might be.

BY COMMISSIONER MORRISON - That does not just apply to the United States. I understand the Canadian National Railway are interested in mining in the State of Ohio.

BY MR. FRAWLEY: Are there any of the coal-carrying roads that are not parties to this brief?

A. None of the substantial ones.

Q. I am told that the Illinois Central are not a party to this brief. They do participate in coal hauling?

A. They of course are not members of the association that Mr. Shultz and I operate. My committee is the Central Freight Association and Mr. Shultz has trunk line territory.

Q. Anyone looking through the list could appreciate very easily that the roads that you do represent do represent the bulk of the coal carrying roads.

A. All the Appalachian area and the anthracite producers.

Q. That is the people that move coal into Canada, so I am not reflecting for a second on the fact that you do speak with authority. Looking at page 17, in which you refer to the stability of

the railroad coal rate, that is distinct from the judgment of the Interstate Commerce Commission in ex parte 148, because the I.C.C. in ex parte 148 refused increases?

A Well, they got them and then they were permitted, not to expire, to become in a state of suspension, where they are now.

Q What I mean, in ex parte 148 they allowed increases and they are not allowing you to apply them?

A Of course the railroad has not opposed this suspension, the arrangement whereby the increases are still in the books but are inapplicable, because in the opinion of the Interstate Commerce Commission, which the railroads have not contradicted, increases are not now necessary.

Q That is one good way of buying peace with the coal operators, I suppose, is not to apply the increases. Well, Mr. Kern, I am grateful to you for what you have said. Mr. Schultz is in the courtroom and he is on the brief with Mr. Kern, and he would like perhaps to say just one word.

MR. O. E. SCHULTZ: I have nothing to add, except to join with him in thanking the Commission for the opportunity of presenting this brief.

12.45 P.M. - COMMISSION ADJOURNED UNTIL
OCTOBER 5 at 10.00 A.M.

R O Y A L C O M M I S S I O N O N C O A L

Ottawa, Ont., October 5th, 1945.

VOLUME XLVIII

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- No. 226 - Submissions of Canadian Pacific Railway Company and Canadian National Railways, in reply to certain evidence respecting transportation rates and costs given before the Royal Commission on Coal.... 4405
- No. 227 - Supplementary Brief on coal transportation by Domestic Coal Operators' Association of Western Canada, supplementary to Exhibit 127..... 4441

THE ROYAL COMMISSION ON COAL

Ottawa, Ont.,
Friday, October 5th, 1945.

The Commission met in the Court Room of the Board of Transport Commission, at Ottawa, Ont., on Friday, the 5th day of October, 1945, at 10:00 o'clock A.M.

PRESENT:

His Lordship, the Honorable Mr. W. F. Carroll, Chairman
His Lordship, the Hon. Mr. Justice C. C. McLaurin, Commissioner.
Angus, J. Morrison, Esquire, Commissioner.
J. J. Frawley, K.C., Commission Counsel
Robert D. Howland, Secretary.

BY MR. FRAWLEY - Mr. Roy S. Kern, who represents 27 coal carrying railroads of the United States, and who presented his brief before the Commission yesterday, has asked to be allowed to make a supplementary statement, and I have told him that he may do so. However, he is not in the Court Room now, so perhaps we can hear him at the opening of the afternoon session.

Now the next will be the presentation of the Canadian Pacific Railway and the Canadian National Railway, and their representatives are here to present a brief, copies of which brief were sent to us some days ago. Mr. A. K. Dysart is here representing the Canadian National Railways, and Mr. K.D.M. Spence representing the Canadian Pacific Railway. We will call on Mr. Dysart first.

BY MR. DYSART - Mr. Chairman and members of the Commission, with your permission I will read approximately the first half of this Brief, and in order to carry out the spirit of co-operation, my learned friend Mr. Spence will conclude it.

EXHIBIT 226 - Submissions of Canadian Pacific Railway Company and Canadian National Railways, in reply to certain evidence respecting transportation rates and costs given before the Royal Commission on Coal.

MR. DYSART then reads Exhibit 226, as follows:

To the Royal Commission on Coal:-

We have heretofore had occasion to point out to Counsel for the Commission, with the utmost respect to the Commission itself, that the measure of freight rates and the terms and conditions of the carriage of all traffic are by the Railway Act relegated to the exclusive jurisdiction of the Board of Transport Commissioners for Canada, and that the Railways cannot with propriety enter upon a justification of either rates or conditions of carriage before your Honorable Commission.

To do so would obviously be futile, because no matter how thorough the investigation which might be undertaken by your Commission, it would necessarily be confined to the rates and conditions governing the movement of Coal, while the Board of Transport Commissioners, which must inevitably undertake its own investigation before authorizing or ordering any change, would, in accordance with settled principles, deal with these questions in their proper relation to the movement of all other commodities throughout Canada.

BY THE CHAIRMAN - Do I understand from that that you are suggesting that this Commission are going to undertake to make freight rates, tariff rates?

A. No sir, we are not suggesting that, but what we are suggesting is, to come before this body and delve into the question of coal rates to the degree that we would be compelled to do before the Board of Transport Commission, is something that the Commission should not require us to undertake.

Q. We are in a position to compel you to go into the question of freight rates just as scientifically as if you were before the Board of Transport Commission, and we have nothing to do with correction of freight rates, but we have the right to make recommendations to a higher body in this country, who are the ultimate correctors and formulators of freight rates in this country.

A. I don't dispute that, or the jurisdiction of the Commission.

But if we are required to give that information in the detail which you suggest perhaps we might, and any remedial measures are to be taken to grant relief to the shipping public of this country, we will have to appear before the Board of Transport Commissioners again and repeat the same evidence, because by the Railway Act that is the only body that is in a position to establish freight rates different from those in effect.

Q. They are not. Parliament?

A. Yes.

Q. That is, the people we will report to, not Parliament, but the Minister.

A. Do I understand that you are suggesting that statutory rates would be established by Parliament, perhaps?

Q. I am not suggesting anything, but that we have the right to go into freight rates here, independently of the Board of Transport Commission, because our report is to the Minister.

A. Yes. We recognize the fact that the terms of the appointment of the Commission are wide enough to bring in the entire field. But what we are attempting to suggest to the Commission is that little good would be served by our giving all the details.

Q. How do you know?

A. That is just our opinion, Sir.

Q. We may have different opinions.

A. May I proceed now, Sir?

BY THE CHAIRMAN - Yes, go on.

MR. DYSART continues brief:

Many of the questions raised by those who have heretofore appeared before your Commission have already been dealt with by the Board of Transport Commissioners, some of them, in varying aspects, on more than one occasion. With respect to these questions, your Commission has been virtually invited by various complainants to sit as a Court of Appeal from the Board's judgments.

BY COMMISSIONER MORRISON - Do you think that is a fair statement?

A. Well I think in its final result this Commission is being asked

to readjudicate the very questions which the Board of Transport Commissioners have decided.

BY THE CHAIRMAN - We are adjudicating on nothing, what the Board of Transport Commissioners or anybody else says.

A. In many instances the Board of Transport Commissioners after an investigation by the Government has determined that certain specific coal rates and the freight rate base utilized in the movement of coal are on a fair and reasonable basis; anybody appearing before this Commission and asking that that be attacked are saying that what the Board of Transport Commissioners say are fair and reasonable rates, are not in effect fair and reasonable today. We may be guilty of injudicious language when we say you are sitting as a Court of Appeal, but I certainly suggest that the Commission is being asked to review the very matters that the Board of Transport Commission has already adjudicated upon. I won't quibble over the use of the words "Court of Appeal".

BY MR. FRAWLEY - A figure of speech?

A. Yes.

MR. DYSART continues brief

With respect to other alleged grievances, all that is necessary to invoke the exercise of the Board's jurisdiction is the writing of a letter setting forth the complaint which the Railways are promptly called upon to answer and if the complaint is one which cannot be dealt with summarily it is set down for hearing by the Board.

Having regard to these considerations, anything in the nature of a Brief in justification of existing rates and conditions of carriage in relation to Coal is something the Railways do not feel at liberty to present.

We trust, however, that the following specific information will be of assistance to the Commission in its deliberations:-

Freight Rates on Coal - General

The inference that Canadian Railways charge relatively high freight rates for the transportation of coal is both misleading

and inaccurate. The fact is that Canadian coal rates have been for many years, and are today, basically low. Whenever general increases in Canadian rail rates have been established in the past, advances in the rates on coal have been negligible in comparison with those made applicable to general merchandise and many other commodities. For example, when the United States Lines, in 1920, received a general increase of 40%, such increase was applied to coal, whereas in the parallel increase in Canada an exception was made of coal and the rates were increased only ten to twenty cents per ton.

Many of the coal rates now in effect have been prescribed by the Board of Transport Commissioners both as to general scales and individual rates. The Maritime Freight Rates Act made a reduction of 20% in the coal rates within the Maritime Provinces and 20% on the proportion of the rate within the Maritimes on coal traffic destined to points outside the Maritimes. In addition the Railways themselves have made reductions in individual rates too numerous to mention.

During the years 1925-1927, the Board of Transport Commissioners conducted a general freight rate investigation (and I quote here the language of Order-in-Council P.C. 886 of January 5, 1925) with a view to the establishment of a fair and reasonable rate structure which would, under substantially similar circumstances and conditions, be equal in its application to all persons and localities, so as to permit of the freest possible interchange of commodities between the various Provinces and territories of the Dominion, and the expansion of the country's trade, both foreign and domestic. Notice of the investigation to be undertaken was given to the various Provinces of the Dominion, Boards of Trade, Chambers of Commerce, and Industrial Organizations throughout Canada, and to the public generally, and all such parties were invited to appear before the Board and make such submissions and representations as to them seem expedient with respect to any and all rates with which they were dissatisfied. Reference to the Board's judgment,

as reported in 17 J.O.R. & R. (that is Vol. 17 Judgment, Orders, Rules and Regulations of the Board) at pages 131-422 will indicate that notwithstanding the general invitation above referred to, only three complaints relating to coal were received, none of which were substantiated and all of which were dismissed by the Board.

For the past three and a half years freight rates, including those on coal, have been frozen at the 1941 level by Order 92 of the Wartime Prices and Trade Board, and the Railways have been obliged to transport coal at these stabilized rates, notwithstanding the fact that both prior to and since 1941 the cost of labour and materials required in the operations of the Railways has substantially increased.

With respect to freight rates generally it may be observed that the Freight Traffic Departments of the Railways were constituted and have been maintained for the very purpose of devising rates that will facilitate the movement of traffic between various sections of the Dominion and they have never rejected any proposal that could reasonably be accepted.

Sydney Sitings - January 16, 1945 - Volume 1 - Pages 77 and 78.

The inference in the evidence of Dr. F. W. Gray, Assistant General Manager of the Dominion Coal Company, that freight rates were not reduced in connection with the payment of subventions pursuant to Order-in-Council 1537 dated September 3rd, 1924, and "that subventions would fail of their maximum usefulness in assisting the haul of Canadian mined coal if they are employed to lessen freight rates that may be in themselves unnecessarily high", is not warranted. For example reduced rates were published in compliance with the provisions of this Order-in-Council in C.N.Rys Tariffs C.T.C. Nos. E-822, E-824 and E-836 between specific points to apply on coal. Furthermore, rates were reduced by the Maritime Freight Rates Act on July 1st, 1927, and in addition the Canadian National Railways have made material reductions in numerous rates on coal from Nova Scotia to points west of Montreal. Some of these reductions range from 8% to 20% below the rates required by the Maritime Freight Rates Act.

As already pointed out, rates for the transportation of coal instead of being unnecessarily high as alleged, are in fact generally well below the normal level of rates applicable to comparable commodities. While Order-in-Council 1537 required a reduction in coal rates as a prerequisite to the granting of subventions, omission of such a condition from subsequent Orders-in-Council relating to the same subject matter constituted (in our view at least) governmental recognition of the reasonableness of existing rates.

Sydney Sittings - January 16, 1945 - Exhibit 1 - Page 118.

The establishment of through combined water and rail rates from pithead to central Canadian destinations, as suggested by Dr. Gray, is regarded as being both unnecessary and undesirable.

Such rates are unnecessary because no reduction would be made by combining water and rail rates. The water rates from Sydney to Quebec or Montreal are presumably as low as the vessel operators can make them and the rail rates from Montreal to points west thereof are already on an extremely low basis and afford no reason for reductions. Any combination of the present rates would therefore result in the same rates as those in effect today.

Such rates are undesirable because water transportation of bulk commodities from Sydney to Quebec or Montreal is not under the jurisdiction of the Board of Transport Commissioners nor of any other regulatory body. Therefore authority to determine the measure of joint through rates, or the proportions which should accrue to the respective water and rail interests is non-existent.

Dr. Gray stated:

"Much effort and large expenditures have been made to combine rail, river and lake and ocean transportation in Canada for cheap transportation of raw materials, such as grain, from originating points in the west to the Atlantic Seaboard."

There are in fact no through joint rail, river, and/or lake rates on bulk grain from the Head-of-the-Lakes or from Bay ports to the Atlantic Seaboard; each class of carrier publishes its own rates.

Dr. Gray also alleged that:-

"In further striking contrast the Provinces of Ontario and Quebec, the most important coal market in Canada, is linked up with very favorable rail and water tariffs and admirable facilities---provided as in the case of canals by public money of Canada--- to ease the access of United States coal to these valuable Canadian Markets."

Through rail and water tariffs for the transportation of coal from United States points to the provinces of Ontario and Quebec have not been established, with the exception of through rates via car ferries which transport the railway cars themselves between rail connections and are treated under the Interstate Commerce Act and the Canadian Railway Act as all-rail transportation.

Water rates fluctuate to such an extent that it would be impracticable to maintain joint water-rail rates on coal on any stable basis, particularly since, as noted above, water carriers, with respect to such transportation, are not under the control of any regulatory tribunal.

Kentville Sitings - February 5, 1945 - Volume XII
Pages 969, 975-6-7, 992, 995, 998.

In the evidence given by Dr. W. S. Blair, Member of the Executive of the Kentville Board of Trade, Mr. Donald Oiler, Coal Merchant, Kentville, N.S., Mr. C. B. Wetmore, President, Wolfville Board of Trade, Mr. W. Meisner, Manager, Canada Foods Ltd., Kingston, N.S., and Mr. E. Beardsley, Creamery and Coal Merchant, Kingston, N.S., it is alleged, first, that rates on coal are too high, and, secondly, that rates on coal from Nova Scotia shipping points to Middleton, N. S., a point served by the Canadian National Railways, where only a one-line haul is involved, are lower than rates to points on the Dominion Atlantic Railway, such as Kentville, Wolfville, Kingston, etc., where a two-line haul is involved, i.e. both Canadian National and Dominion Atlantic Railways. Both of these allegations would seem to be properly answered by the President of the Wolfville Board of Trade at page 992, wherein he stated:

"(b) Freight rates are excessive. It is realized that this is a matter for the Board of Railway Commissioners, but experience has shown that reductions can be obtained by making proper representations to that organization."

With particular respect to the second allegation and without going into the details of actual rates involved, it would appear sufficient to state that rate regulating bodies have uniformly held that no unjust discrimination results from the application of higher rates for a two line haul than for a one line haul for the same or similar distances.

Amherst Sittings - February 13, 1945 - Volume XVI - Page 1280

In the evidence given by Mr. H. N. Soley, reference is made to the use by the Canadian National Railways of the longer route between Stellarton and Oxford Junction through Truro instead of the slightly shorter route through Oxford.

The difference between the two routes above mentioned is actually only 8 miles. There are 28 heavy grades between Oxford Junction and Stellarton via the so-called short route, whereas the slightly longer route through Truro contains only 17 substantial grades, most of which are lighter than any grade on the so-called Short Line. The Management of the Canadian National Railways considers that it is far more economical to handle traffic a further distance of 10 percent over lighter grades than to spend millions of dollars in an endeavor to cut down the grades on the short line. The statement of Mr. Soley that this whole area along the Northumberland Straits cannot be adequately supplied with coal requirements by highway transport alone is possibly correct but the fact remains that existing railway facilities at stations on the short line are more than adequate to take care of any coal that may be offered. In fact in the normal pre-war year of 1939 there were over one thousand cars of freight originating east of Stellarton delivered at stations on this Short Line and these cars included more than 140 cars of coal and coke.

Amherst Sittings - February 13, 1945 - Volume XVI - Page 1283

Mr. Soley's allegation that the Canadian National Railways are impeding the development of the Port of Pugwash is not in accordance with the facts and is emphatically denied. The commodities handled through the port in question are lumber and

forest products. Over 37,000 tons of these commodities were moved through Pugwash in the normal year of 1939 which fact constitutes a complete refutation of the charge. Canadian National Railways stand ready and willing to handle coal through Pugwash just as soon as those desiring the service provide suitable facilities for transferring the coal from vessel to car.

Fredericton Sitings - February 16, 1945 - Volume XVII.

Without in any way attempting to argue the merits or demerits of the submission of the New Brunswick Coal Producers' Association, which we submit are entirely within the province of the Board of Transport Commissioners, we believe one grave inaccuracy in Dr. Petrie's evidence should be drawn to this Commission's attention. At page 1341 of Volume XVII, the rate quotations are misleading. The first column shows "C.P.R. ex Minto", whereas the rates to Bathurst, Campbellton and Dalhousie are a combination of the C.P.R. rate of 30 cents to Chipman plus the C.N.R. rates beyond, and are, therefore, two-line combinations. Furthermore, the third column shows "C.N.R. ex Springhill Junction", which is misleading because the rates shown are subject to an addition of 20 cents per gross ton published by the Cumberland Railway and Coal Company from Springhill Mines.

We would also draw attention to the following statement made by Dr. Petrie relating to the rate quotations which he filed.

"These figures do not include the long spur haul from the Minto fields which will run 40 to 50 cents a ton; so they are really higher than are shown here."

As the rates in the table include the switching charge of 30 cents per ton from the Minto field to Chipman and as the "Long Spur" switching charge, where applied, would not exceed 4 cents or 5 cents per ton, it would appear either that Dr. Petrie has been misinformed or that a typographical error has been made in the record of the Commission's proceedings.

Vancouver Sitings - March 26, 1945 - Volume XIX - Pages 1637 & 1638.

Mr. T. A. Horne, an Officer of the Vancouver Island Coals Ltd., in answer to questions asked by members and Counsel of the

Commission made reference to the difference between rates from Canadian National and Canadian Pacific coal originating points to Vancouver.

While it is true that a difference of 30 cents per ton exists between the rate on coal from Fernie, B.C. to Vancouver via Canadian Pacific Railway for delivery on its line and that from Mercoal, Alta. via Canadian National Railways for delivery on its line, other factors have to be taken into consideration if the information is not to be misleading:

The complete facts are as follows:

1. The competitive rate of the Canadian Pacific Railway on coal from Fernie, B.C. to Vancouver, B. C. of \$4.20 per ton for a haul of 672 miles applies when delivery is made on the tracks of the Canadian Pacific Railway. When delivery is required on the tracks of the British Columbia Electric Railway., Canadian National Railways, or Great Northern Railway, the rate is \$4.30 per ton.
2. The rate of the Canadian National Railways from Mercoal, Alta. to Vancouver, B.C. of \$3.90 per ton for a haul of 670 miles applies only when delivery is made on the tracks of the Canadian National Railways. When delivery is required on the tracks of the British Columbia Electric Railway, Canadian Pacific Railway, or Great Northern Railway, the rate is \$4.10 per ton.

It will therefore be seen that the difference between the rate on coal from Fernie to Vancouver for delivery on Canadian Pacific tracks where a substantial share of the coal is required and the rate from Mercoal to Vancouver for delivery on the same tracks (that is the Canadian Pacific tracks) is actually only ten cents per ton.

Vancouver sittings - March 28, 1945 - Volume XAI - page 1781.

The suggestion of Mr. T. C. Boyd, President of the Greater Vancouver Retail Fuel Dealers' Association that this Commission should investigate the freight rates on coal between Alberta and Vancouver which were put in effect at a time when the volume is alleged to have been on a decidedly lower scale, is another example (and I say this in view of the Commission's remarks, with the utmost deference) of this Commission being invited to sit as a Court of Appeal from the judgments of the Board of Transport Commissioners for Canada.

As a matter of fact the rates in question were dealt with by the Board in the Western Rates Case in 1914 and since that time there has never been, insofar as we are aware, any general or specific protest filed with the Board with respect to such rates, nor has any application been made to the railways for a general reduction.

However, if a new investigation is to be held and there is no apparent necessity therefor at the present time, it is respectfully suggested that the proper forum before which the issues should be raised is the Board of Transport Commissioners, and not this Honorable Commission.

BY THE CHAIRMAN - Don't you think it would be a good thing if this Commission should advise those people that we are not sitting as an Appellant Court.

A. It might be desirable if the Railways continue to hold the views suggested in this brief.

BY THE CHAIRMAN - It might be well if I made an announcement which would indicate to all and sundry that this Commission is not sitting as a Court of Appeal. It might be enlightening for the public who are interested in this thing.

A. I agree.

BY MR. FRAWLEY - The public may be confused because we are sitting in the Transport Board's court room.

A. That may be, but we are not confused on that point.

BY COMMISSIONER MORRISON - Did I understand you to say that the Railways are never confused?

A. We are not confused about the jurisdiction of the Board of Transport Commissioners.

B. I thought you said you were never confused.

A. That would be a very rash statement for anybody to make, and more particularly for myself.

MR. DYSART continues brief.

Vancouver Sittings - March 28, 1945 - Volume XXI - Page 1806.

In the evidence of Mr. W. E. Robi, Resident Director,

Coal Sellers Ltd., Vancouver, B.C., reference is made to an alleged disparity between rates on coal to Vancouver from Coalspur, Alta. via Canadian National Railways, and those to the same destination from Drumheller, Alta. via Canadian Pacific Railway and Canadian National Railways.

A few of the rates with distances, which are representative, are shown below:

| <u>Shipping Point</u> | <u>Originating Line</u> | <u>Rate</u> | <u>Miles</u> |
|-----------------------|-------------------------|-------------|--------------|
| Coalspur, Alta. | C. N. Rys. | 19½¢ | 663 |
| Drumheller, Alta. | C. N. Rys. | 25¢ | 943 |
| Drumheller, Alta. | C. P. Ry. | 25¢ | 741 |
| Lethbridge, Alta. | C. P. Ry. | 25¢ | 769 |

The rate of 19½ cents on coal shipped from Coalspur, Alta. to Vancouver via Canadian National Railways was established for the purpose of meeting competition provided by coal shipped by water from Vancouver Island to Vancouver. The rate of 25¢ from Drumheller to Vancouver via Canadian National Railways was designed to meet the short line competition of the Canadian Pacific whose route between the points in question is 741 miles as compared with the Canadian National distance of 943 miles.

BY COMMISSIONER McLaurin - 19½ cents on what?

1. Per 100 pounds.

MR. DYSART continues brief.

The Board of Transport Commissioners has held on numerous occasions that it is within the discretion of the carrier as to whether competition should be met and this principle accounts for the fact that the Canadian Pacific has not seen fit to meet the Coalspur rate of the Canadian National by establishing comparable rates from Drumheller or Lethbridge to Vancouver.

The Board of Transport Commissioners has further held that the rate charged on one railway is not necessarily a measure of the rate to be charged on another railway, and your Counsel, at page 1379, Fredericton Sitting, February 16, 1945, referred the Commission to one of the Board's judgments in which this principle was enunciated. Two other judgments in which the same doctrine is propounded are those of the late Chief Commissioner,

the Hon. F. B. Carvell, K.C., in the complaint of Canada West Coal Co. Ltd. of Taber, Alta. and the International Coal & Coke Co. Ltd. of Coleman, Alta. with respect to rates on coal from the Lethbridge and Crow's Nest Districts to Winnipeg, reported in Volume XI J.O.R. & R. pages 137-138, and the judgment of the late Chief Commissioner, the Hon. H. A. McKeown, in the complaint of Three Hills Board of Trade and Palisade Coal Company Limited, respecting rates on coal from Three Hills, Alta. to points in Saskatchewan and Manitoba, reported in Volume XVIII J.O.R. & R. at page 404-405.

Vancouver Sittings
March 29, 1945 - Volume XXII - Pages 1863 and 1872.

In the evidence of Mr. E. H. Bohrer, Manager, Gas Department, British Columbia Electric Power & Gas Company Limited it is alleged that coke produced at Vancouver cannot be marketed in the interior of British Columbia because the lower bulk density of coke as compared to that of coal precludes the shipper from loading a minimum carload lot into a normal railway car and consequently minimum carload freight rates invariably have to be paid. An investigation of this matter by the Railways does not substantiate this contention but on the contrary reveals that it is actually possible to load coke to the minimum carlot capacity required by tariff, and we are certain that the British Columbia Electric Power & Gas Company Ltd. if questioned on the subject today would admit this fact.

BY MR. FRAWLEY - You went into it? You found that they could get as much coke into one of those cars with the sides on them?

A. Those are my instructions. As a matter of fact I think we have confirmed it with the British Columbia people.

MR. DYSART continues brief

Calgary Sittings - April 4, 1945 - Volume XXIV - Page 2071.

In the evidence of Mr. Edward Boyd, Acting Secretary, District No. 18, United Mine Workers of America it is alleged "that the present freight rates on coal shipments to Eastern Markets are excessive."

The basis for this allegation is, generally speaking, a repetition of the statements made by Mr. Jesse Gouge of the Domestic Coal Operators' Association of Western Canada, which is dealt with later in this memorandum. Particular exception, however, must be taken to the statement of Mr. Boyd that:

"Investigations in the past of estimated cost took into consideration all classes of freight from first to tenth class and by this method the average freight cost of shipping coal to the Eastern Market was established. In addition to that they doubled the cost, claiming that the expense of bringing empty cars back to the mining district was as great as when shipping full cars to the Eastern Market."

The cost of moving coal finally determined by the Board of Transport Commissioners after an analytical review of the cost study prepared by the railways took into consideration only the cost of moving that commodity and it did not (to quote one example) include costs of handling less than carload freight. The allegation that the cost was doubled for the expense of moving empty cars back to the mining districts shows a complete misunderstanding of the Board's findings. On the eastbound movement the entire weight of the car with its contents was used to ascertain the proportion of the cost over each division while upon the return journey only the weight of the empty car itself was used.

Calgaryittings - April 5, 1945 - Volume XXV - Page 2193

In the submission of Mr. V. A. Cooney, Secretary of the Drumheller Coal Operators' Association, it is stated:

"Transportation and distribution costs respecting distant markets are high and it is submitted that these may be reduced to permit Western Canadian coal to compete with imported coals in those markets."

This proposal appears to be based upon Mr. Cooney's statement on page 2192, reading:

"In both peacetime and war period more than 50 percent of the coal consumed in Canada is produced outside the country. Our American coal imports have been in one year as high as 27 million tons or more. It is urged that if but half a million tons per year of Alberta domestic coal can be shipped during the spring and early summer months into the Ontario markets at a price to the consumer which can compete with American coals, it would result in a

"very small curtailment of imports and would stabilize Alberta's domestic coal industry - providing steady year round employment opportunities for mine workers in Alberta."

The reference to the importation of 27 million tons from the United States, compared with the consumption of Alberta domestic coal, is misleading. This figure includes both bituminous and anthracite coal. Alberta domestic coal compares with United States anthracite coal.

BY MR. FRAWLEY - Can the C. N. R. be quoted publicly on that statement?

A. We may put a witness in the box who would be prepared to substantiate it. We are not attempting to lay down any new policies, and we hope we can substantiate what we have alleged.

MR. DYSART continues brief.

The figures published by the Dominion Bureau of Statistics, show that in the normal pre-war year of 1938 only 2,017,623 tons of United States anthracite coal were imported into this country.

The freight rate is only one factor in the competitive position of Alberta coal. Competition includes such factors as relative cost at the mine, respective heating values, relative degradation, duty and exchange.

The establishment by the railways over a period of 22 years of experimental subnormal rates on Alberta coal destined to Ontario points has greatly assisted the Alberta mines in meeting competition of American coal, but the proximity of the American mines to Ontario, and available water competition from Lake Ontario and Lake Erie ports are the governing factors, and these cannot be overcome by any all-rail rate from such far distant territory as Alberta.

BY MR. FRAWLEY - What you say is that there are too many other differentials and why should the Railway Company be expected to pick up all the difference in these two coals?

A. That is part of it. What we say throughout is that our existing rates instead of being abnormally high, are in fact subnormal. The illustration is that in 1943 the Board of Transport Commissioners found that the rate from Drumheller to

Toronto was \$12.70 and found it a fair and reasonable rate.

BY COMMISSIONER MORRISON - Was that a unanimous finding?

A. I believe a majority, but in any event it is the majority that prevails. Our contention here is that the reasonable normal rate for the carriage of coal from Drumheller to Toronto was found by the Board of Transport Commissioners in 1933 to be \$12.70 and the Railways have been carrying that for \$8.00. Notwithstanding the fact that since 1933 it is generally recognized that the cost of operating the railway has materially increased, and what was fair and reasonable in 1933 is, I suggest, not quite as reasonable today. In other words it is costing us more to haul the coal, and still we are not charging the \$12.70 rate.

Q. What you are emphasizing is, making a lot of the cost of labor. How does your labor cost per ton mile in 1944 compare with labor cost per ton mile in 1936?

A. I can't answer that off-hand.

Q. Am I right in assuming that it is less today than then?

A. That I am not in a position to say. But it is generally recognized, Mr. Commissioner, that the expenses of operating the railroad are certainly no less, and in all probability they are greater today than they were in 1933, but if the Commission desires that matter to be gone into, I think perhaps I can produce a witness that knows a lot more about it than I do.

Q. You are laying stress on the increased cost of labor?

A. I merely say it costs more to operate the railway, whatever the various factors that make up that increase.

BY MR. FRAWLEY - You do sometimes make a rate admittedly below cost to meet competition? From Marcoal to Vancouver to meet competition of coal coming from the Island by water, and you make that rate without regard to cost? I am putting it to you, have you ever thought that to meet American competition demanded putting in a rate below cost?

A. I can't say, because I am not in the freight department, but I will put a witness in the box who is one of the men who

formulates the rate policy of the company. We are not here to hide anything on a subject like that, and if it is the desire of the Commission that that feature be developed after Mr. Spence completes the brief, I will put Mr. Knowles in the box. I have reached the point where my learned friend takes over.

BY THE CHAIRMAN - You would not care to add to that whether Alberta coal compares..

BY COMMISSIONER McLAURIN - The word should be "compotes".

MR. DYSART - My instructions are to read the brief as prepared and I am not in a position to depart from the position we have taken.

BY THE CHAIRMAN - Does it mean it compares badly, or good?

A. I would say favorably.

BY THE CHAIRMAN - I was expecting Mr. Frawley to be on his feet to say, add the other word.

A. We endeavored to be non-committal on that particular statement.

BY MR. SPENCE - This division of the brief between Mr. Dysart and myself is merely for the purpose, that the burden will fall as equally as possible on the two of us, and there is no real division in the brief between the views of the Canadian National Railways and the Canadian Pacific Railway, so I will proceed with the Calgary Sittings of April 6th, 1945.

MR. SPENCE the continues reading the brief, as follows:

Calgary Sittings - April 6, 1945 - Volume XXVI
Pages 2204 to 2288 inclusive

The submission of Mr. Jesse Gouge, as Chairman, Sub-Bituminous Coal Operators' Association speaking on behalf of the Domestic Coal Operators' Association of Western Canada, consisted of 84 pages and dealt entirely with the question of the transportation of coal from Alberta to Ontario.

The railways could not with propriety attempt to answer all of the matters brought up in that submission. To do so would be a transgression upon the functions of the Board of Transport Commissioners. In this memorandum we will only deal with "trainload versus single car rates or movements".

The suggestion of a negotiated freight rate for shipment of coal in trainload quantities from Alberta to Ontario springs from the belief that movement of freight in trainload lots presents opportunity for substantial economies as compared with standard methods of railway operation, and that therefore, if a commodity such as coal were to be segregated and moved in trainload lots, a substantial reduction in freight rates could be made.

BY MR. FRAWLEY - I suppose we are to take it that everything else in Mr. Gouge's brief is correct?

A. No, I would not say so. If we attempted to go into all of the questions that are raised in Mr. Gouge's brief we would spend a very long time doing so; it might take many days or weeks to go into those questions thoroughly; and as our friend Mr. Dysart said, we might at some future occasion have to go over them all over again before the Board of Transport Commissioners.

BY COMMISSIONER McLURIN - In any event you are dealing with solid trainloads?

A. Solid trainloads is what we propose to deal with in this brief.

MR. SPENCE continues brief

A superficial consideration would lead one to expect lower costs to result from the suggested method, but there are in fact, operating difficulties of such a nature as to make impracticable any such movement, and no railroad in either Canada or the United States has ever operated a solid train on a commercial transcontinental basis.

Mr. Gouge refers particularly to the action of the railways in publishing a rate on crude oil from Calgary to Regina of 19 cents per 100 pounds for a minimum of 25 cars, the inference being that it was an enormous reduction from the single car rate of 68 cents per 100 pounds. The 68 cent rate is the same as that on gasoline, and is no criterion of a reasonable or a reasonable rate on a raw material such as crude oil. The Board of Transport Commissioners in a case dealing with crude oil rates from the United States, prescribed a basis equivalent to 40 percent of the gasoline rate (25 J.O.R. & R. 511), which basis, if applied on

crude oil from Calgary to Regina would make a rate of 27 cents. This rate was actually published, but restricted to shipments of 5 car lots. The principle laid down by the Board in condemning the restriction of 25 car lots in connection with the 19 cent rate, applies equally to the restriction of 5 car lots at 27 cents. The true reduction therefore is not from 68 cents to 19 cents, but from 27 cents to 19 cents, a reduction of 29.6 percent, which is the real difference between the normal rate on crude oil and the pipe line competitive rate. This reduction, however, and the requirement that 25 cars must be shipped at one time were not made because of any alleged economy in handling crude oil in trainloads, or in part trainloads, but merely for the purpose of meeting pipe line competition on comparable terms and conditions.

The cardinal principle of efficient railroad operation consists in giving a locomotive operating over each section of a railway route as much tonnage to haul as it can handle over the principal or ruling grade in that section. In railway practice, this means that any rail route between two principal terminals is divided into a large number of subdivisions, and cars are added to or removed from trains moving over the route depending upon the class of locomotive and the grades encountered.

BY THE CHAIRMAN - There is just one question. A reduction was made on crude oil for the purpose of meeting pipe line competition. Are you suggesting that you lose money on those rates, or that you don't make a profit on them?

A. We will try to cover that later, Sir. I can't say off-hand myself.

BY MR. FRAWLEY - I think Mr. Jefferson and Mr. Knowles know all about that particular rate case.

MR. SPENCE continues brief

Economics effected by adjusting the trainload in this manner are so great that it pays to create intermediate points where the class of locomotive can be adjusted to the traffic requirements and the physical characteristics of the line, and

where facilities can be provided for increasing the size of a train or for reducing it. Efficient operation over a long route therefore requires that the train tonnage should wax and wane, and should at all times approximate closely the maximum tonnage which can be handled over each section. A train might start out with 60 cars, then encounter a condition where only 40 cars could be handled. At this point, 20 cars would need to be set out. The train would then move over another subdivision, where 100 cars might be handled in one train unit so that two-and-a-half 40 car trains would be consolidated into one train, and so on. If the contrary idea of unit trainload operation is adopted, this flexibility would be lost and in the case above mentioned, the train would be limited to 40 cars over the whole route, or in other words, to the smallest train unit as set by the worst operating condition. This means that to handle a given tonnage of freight, the number of train miles would be greater than if standard practice were used. Of course, as against this extra train mileage, there would be some saving in the avoidance of costs incident to adjusting the trainload. Generally speaking, however, these costs are less than the train mile economy so that the balance is in favor of adjusting the trainload. The admirable record of the railway industry in Canada and the United States, which countries provide the lowest transportation costs in the world, has resulted from the attention which has been paid to train tonnage. Mr. James J. Hill, late President of the Great Northern system, was the proponent of this idea and introduced it as the first principle of scientific railroading.

It would require a great deal of study in any specific instance to determine definitely whether unit trainload or standard operation is the cheaper, but inasmuch as the transportation of coal from Western Canada to Eastern Canada would involve movement over fifteen or more subdivisions, each of which has its own characteristics, it is inevitable that the suggested method of operation would turn out to be more expensive than the standard method.

There is another feature that has to be considered. The railway is a public servant and is most successful when it carries on its activities so that the sum total of the cost of transportation is at a minimum. It has already been shown that by taking all traffic coming into terminals, and pooling it, average transportation costs are minimized. If a certain type of traffic is segregated, the by so doing the ability of the railway to operate at a minimum overall cost is impaired, because not only will there be an increase in train miles required to handle the specific traffic as compared with the train miles required to handle it if pooled with other traffic, but also there will be an increase in the number of train miles required to handle the balance of the traffic which has not been segregated. The reason for this is plain, because the ability to adjust trainloads to engine ratings is limited by the amount of pooled traffic passing through each terminal. It will be readily seen that to apply the unit trainload idea to any substantial portion of the general traffic would create a difficult and expensive type of operation.

The distance from the Drumheller area to North Bay on the Canadian Pacific is 1,854 miles, and the fluctuations in trainload capacity between those points are graphically illustrated in the chart attached to this memorandum as Appendix "A". The theoretical train cannot commence at Drumheller with more than 47 cars; it may increase to as many as 84 cars on the flat prairie section, but will decrease to 26 cars in the extremely difficult operating territory around Lake Superior. In other words, the so-called 50 car train may at one time be almost twice that number of cars, while on another occasion it will be approximately half. In winter months these figures will be reduced so that the train will have, for part of its journey, fewer than 25 cars.

If the train moved between the same two points via Canadian National the number of cars would vary between 38 and 70

during summer months, as is more particularly shown on the chart attached hereto as Appendix "B".

Obviously, these fluctuations create the necessity for double-heading the train at certain points and splitting it into several trains at other points. Alterations of this kind in the physical composition of a train will naturally affect operating costs and resultant freight rates.

The whole question of transportation of coal from Alberta to Ontario has for the past twenty years and more been given the most extensive study by the Government and the Board of Transport Commissioners whose reports and judgments show that practically all of the consequential matters in that connection now raised before this Commission have already been fully considered.

MR. SPENCE: Now I may add that we understand that a supplementary brief will be read to the Commission by Mr. Jesse Gouge and we have just received copies of that in the last few days. Naturally we have not had time for an analytical study but we have noticed several fundamental statements in which we think Mr. Gouge is in error, and a witness will be produced at the end of this submission in order to deal with that brief just in that way.

BY COMMISSIONER McLAURIN: You have covered the field of this solid trainload situation? That is the whole submission of the railroads in regard to the solid trainload?

MR. SPENCE: Yes, we are going on to something else now.

BY MR. FRAWLEY: Except that we propose to ask Mr. Knowles and Mr. Jefferson some questions on it.

BY COMMISSIONER McLAURIN: Oh, we will get more information?

BY MR. FRAWLEY: And not only that, sir, but, I have not discussed it with Mr. Gouge but I think perhaps he would like the privilege of asking some questions, and for my part I would be very glad.

MR. SPENCE: The witness we propose is neither Mr. Knowles nor Mr. Jefferson. It is a representative from the accounting

department of the Canadian National Railways.

BY COMMISSIONER MORRISON: What department?

MR. SPENCE: From the economic department of the Canadian National.

BY MR. FRAWLEY: Of course you don't mind if we want to ask Mr. Jefferson or Mr. Knowles some questions?

MR. SPENCE: Oh no. I presume you want to ask the man who theoretically knows the most about it.

BY MR. FRAWLEY: Oh yes, sure.

BY COMMISSIONER McLAURIN: We would like to hear from an operating man. The thing against the solid trainload is that it is hard to operate.

MR. SPENCE: I might say the witness we intend putting on is from the Department of Research and Development, which is the department which deals with operating matters and makes studies. He is thoroughly conversant with the subject matter and I think can give the Commission all the information it desires. (Continues brief):

Edmonton Sittings - April 16, 1945 - Volume XXVII - Page 2365

In the submission of the Honourable N. E. Tanner, Minister of Lands and Mines for the Province of Alberta, reference is made to the "American Market" and with respect to the movement of Alberta coal to United States points, he stated:-

"There has always been a small amount of Alberta bituminous coal marketed in the adjoining states of the Union.

"In the past they have welcomed Canadian coal when supply was short but when their own coals became plentiful, barriers of one description or another have restricted the free entrance of Alberta coal. The control of such movement rests in large measure with the U.S. Interstate Commerce Commission, which can be, and sometimes have been, quite arbitrary in the issue of regulations unfavorable to Canadian coal when they consider the circumstances so warrant."

The Canadian railways have succeeded in establishing joint through rates on coal from Alberta to destinations in Idaho, Washington and Oregon, but have not been able to establish

such rates to Montana, North Dakota, South Dakota or Minnesota due to the objections of the United States railways.

The Canadian railways have gone as far as possible to establish low proportional rates on Alberta coal to the international boundary, the rates beyond being published by the United States lines. Mr. Tanner is incorrect in his opinion that the Interstate Commerce Commission has put barriers in the way of the movement of Alberta coal to United States points; on the contrary, in a case brought before that Commission by the Alberta Coal Sales Company complaining of the rates from the international boundary to points in North Dakota and Minnesota, 142 I.C.C. 543, the Commission found that the rates were unreasonably high, ordered them reduced for the future and awarded reparation on previous shipments. The United States railways appealed this case to the United States Supreme Court (Great Northern Railway Company versus Sullivan, 294 U.S. 548) on the ground that the combination of the two rates, namely the low Canadian rate and the high United States rate, together made a combination rate which for the distance involved was not unreasonable compared with rates for similar distances entirely within the United States. The Supreme Court agreed with this contention, reversed the decision of the Interstate Commerce Commission, cancelled the award of reparation, and permitted the higher rates south of the boundary to remain in effect. Thus the establishment of very low rates for the Canadian portion of the haul had the unusual effect of maintaining higher rates on the United States side of the boundary, because the total combination was not considered unreasonable by the United States Supreme Court.

Edmonton Sittings - April 16, 1945 - Volume XXVII
Pages 2387-2389

Edmonton Sittings - April 17, 1945 - Volume XXVIII - Page 2448

The Honourable Mr. Tanner summarized his conclusions on page 2448 of the Proceedings:-

"Freight Rates

"8. That the Dominion Government take immediate and effective action to establish by statute substantially reduced freight rates for coal with provisions for flexibility to meet emergent or changing conditions.

"9. That this Royal Commission make a complete and thorough investigation with the Board of Transport Commissioners and the railways of the present high basic \$8-per-ton freight rate on coal shipments from Alberta to Ontario.

"10. That a complete examination of freight handling costs be conducted in respect to present day conditions to determine the possibility of rates more favorable to coal through the use of modern equipment and solid trains."

Apart from the obvious objections to freight rates being fixed by Parliament, which have been fully recognized by Parliament itself in the past, it must be pointed out that if such statutory rates on coal as Mr. Tanner proposes were to be enacted, simple justice to the railways would require that the principle enacted in the Maritime Freight Rates Act be written into legislation, namely, that the necessary funds be provided by the Dominion Government to pay the difference between the statutory rate paid by the shipper and the normal rate. The Crows Nest Pass grain rates, to which the Honourable Mr. Tanner refers, were established by the Canadian Pacific Railway Company in consideration of a subsidy for building a branch line through the Crows Nest Pass, and in order to provide parity of treatment were subsequently made applicable to all grain and flour moving from points west of Fort William to Fort William over all lines of railway subject to the jurisdiction of Parliament. The statutory rates on grain were therefore established in special circumstances, and the railways will object to the establishment of any statutory rates without corresponding compensation. If statutory rates were imposed for the movement of coal without compensation there would be nothing to prevent similar Acts of Parliament in respect of lumber, cattle, ores and other commodities, finally resulting in a severe strain on

the National Treasury.

Referring to the Honourable Mr. Tanner's proposal of an investigation into the alleged "high basic rate of \$8.00 per ton on coal shipments from Alberta to Ontario," this rate is not a "basic" rate, but is in fact a subnormal rate, established for the purpose of endeavoring to develop the movement of Alberta coal to Ontario. This may be confirmed by an examination of the public records of the investigations by the Board of Transport Commissioners. As to the transportation costs referred to, they are now approximately one-third higher than they were when this rate was published.

BY COMMISSIONER McLAURIN: The rates are approximately one-third higher, or the costs?

MR. SPENCE: The operating costs are one-third higher.

BY COMMISSIONER McLAURIN: Oh yes; I'm sorry.

MR. SPENCE continues brief:

Regina Sitings - April 19, 1945 - Volume XXIX - Page 2652

In the submission of Mr. M. A. MacPherson, K.C., on behalf of the Regina Fuel Dealers' Association, the following statements were made:-

"In the matter of wartime restrictions the dealers have found that the regulation in respect to credit is most desirable and they feel that by means of this regulation many of the dealers have been able to keep in business. In peacetime they do not believe that there can be to the same degree the orderly delivery of coal as has been sought during the war. They suggest that if the mines and railways could get together and if there was a small reduction in the price of coal and freight rates, so that in turn the dealer might pass this reduction on to the consumer, that there might be here a measure of summer delivery."

Mr. MacPherson was of the impression that something was done in this connection in 1921, but not followed up or worked out. Mr. MacPherson promised to look into the matter further and advise the Commission.

Mr. MacPherson's recollection appears to be quite correct and for the information of the Commission the following statements explain what transpired.

Upon an application of the Fuel Dealers' Association of Greater Winnipeg, the Winnipeg Board of Trade, and others for a reduction in the freight rates on coal in Western Canada between the dates of April 1st and October 1st of each year, the Board of Transport Commissioners held a Hearing at Winnipeg, April 27, 1921 and May 21, 1921, rendered judgment and issued General Order No. 341 (J.O.R. & R. - Volume XI - No. 5 - Pages 98-101 - June 1921).

In this General Order the Board ordered:-

"That all railway companies subject to the jurisdiction of the Board interested in the coal movement in the three Prairie Provinces be, and they are hereby, required to reduce the rates on coal from mines in the Provinces of Alberta and Saskatchewan to points in the Provinces of Alberta, Saskatchewan and Manitoba, by ten per cent, including coal actually billed out up to and including the 31st day of August next; such companies to file tariffs to this effect, effective on the 1st day of June next."

This reduction in rates was made effective by the railways by appropriate tariff action but was not renewed after the summer of 1921. The reduction had, for its purpose, not only the lowering of the rates of the Railways but also a reduction in the price by the producers as well as the dealers at the consuming points. The experiment was one with unsatisfactory results to the Railways as well as the producers and dealers. All that was accomplished was a reduction in the revenue of the railways on the coal which moved during the period the reduced rates were in effect. As a matter of fact, during the period the reduced rates were in effect, with the exception of the last two weeks in August, less coal moved than in the corresponding period of the previous year. On the coal which moved during the last two weeks in August, when there was a substantial increase compared with the same period of the previous year, it appeared that the reduction finally found its way into the pockets of the dealers, as the price advanced as was usual in September and the consumer did not receive any benefit.

Your Commission might be interested in reading the evidence given before the Board of Transport Commissioners at a hearing in Calgary, October 31, 1921, by Mr. Jesse Gouge, when giving evidence in connection with a transfer track between the Canadian Pacific and Canadian National Railways, at Drumheller:-

"MR. GOUGE: I may say there was about fifteen days of rush during this fall's operations, in the last half of August, just prior to the time the reduced freight rates were restored to the old figure.

THE ASSISTANT CHIEF COMMISSIONER: Is that the only period in the summer when the effect of the reduced freight rates was felt?

MR. GOUGE: That is about all the effect we found. The last two weeks of August there was pretty heavy business. During that time we loaded around 230 cars a day approximately."

BY THE CHAIRMAN: They didn't reduce the price of coal, did they?

MR. SPENCE: No sir. (Continues brief):

The reason seems quite apparent why there was no public demand for a renewal of the reduced rates during the summer months; the experiment had failed to accomplish the purpose for which it was designed and was most unsatisfactory to the railways as well as to the producers and dealers.

Regina Sitings - April 20, 1945 - Volume XXV - Pages 2695 - 2696

In the conclusion of the submission of Mr. C. L. Thompson, General Manager of the Manitoba and Saskatchewan Coal Co. Ltd., one of his recommendations proposed:-

"5. That an average demurrage rule be established."

What Mr. Thompson means is, for example, that where a consignee unloads a car in one day instead of the two days free time allowed under the Demurrage Rules, he should receive credit of one day, which could be applied on another car which may be delayed three days in unloading, thus offsetting the charge for demurrage which would otherwise be made for the third day.

This proposal has been dealt with by the Board of Transport Commissioners on three separate occasions, and has been rejected by that Board on the ground that it would not be in the

public interest to establish such a rule. See Order 6264 of the Board February 8th, 1909, in the application of the Wallaceburg Sugar Company; General Order 285 of March 2nd, 1920, in the application of the Canadian Manufacturers Association, and In re Car Demurrage Rules 24, C.R.C. 180 at page 196.

Regina Sittings - April 20, 1945 - Volume XXX - Pages 2720-2729

In the brief submitted by Mr. R. D. Newsome, on behalf of Jenish Bros. Mine, Tisdale Mine and the Northwest Coal Company, in the Estevan - Bienfait area, it is alleged that these mines were unfavorably affected by the ruling of the Board of Transport Commissioners in 1940 which permitted the railways to make an agreement with other mines for the transportation of coal at rates lower than the normal tariff charges in consideration of the entire traffic of such mines being handled by rail.

The agreement between the Railways and certain coal mines in this area is an agreed charge which is filed with and approved by the Board of Transport Commissioners as C.T.C. (A.C.) No. 17, which agreement was made under the provisions of Part 5 of the Transport Act, 1938, 2 George VI Chapter 53. That act was passed after an investigation and hearings lasting many weeks by a Committee of Parliament. The Act was passed for the very purpose of giving the railways some relief from the onerous provisions of the Railway Act with respect to competition. For many years unregulated truckers had carried traffic at unremunerative rates during period of good weather, and the shippers merely used the Railways as a standby when trucking service was not available, especially during severe winter periods. The result was that in some cases the Railways were forced to abandon their branch lines because of the unremunerative and spasmodic character of the traffic on such lines. The agreed charge enabled the Railways to make contracts with shippers, who had heretofore been using trucking service, whereby in return for rates below the normal tariff rates the Railways were assured of business the year round. All agreed charges

are subject to objection by any shipper who might consider his business adversely affected by such agreed charges, and in this case the three firms referred to had their day in court before the Board of Transport Commissioners, when all the objections they could raise to the agreed charge were stated and were overruled by the Board of Transport Commissioners in their Judgment reported in Volume 30, J.O.R. & R. at page 453.

Winnipeg Sitzings - April 24, 1945 - Volume XXXI - Pages 2809-2810

In the submission of Mr. A. H. Brett, for the Winnipeg Coal Exchange, on behalf of the retail coal dealers of the Greater Winnipeg area, it is inferred that freight rates should be lowered because the existing structure encourages competition from other fuels. The rates on coal from Alberta points to Winnipeg were prescribed on a reduced basis by the Board of Transport Commissioners in the Western Rates Case and if the Winnipeg Coal Exchange now considers that a case can be made out for further reductions they should address themselves to the Board, which is the only forum before which such matters can lawfully and effectively be dealt with.

Winnipeg Sitzings - April 24, 1945 - Volume XXXI - Page 2837

In the submission of Mr. J. R. Holmes for the Red River Co-Operative Supply Limited, he concludes with recommendations that lower freight rates and lower coal prices by mines and dealers be established for the months of May, June, July and August in order to encourage summer movement of coal. This question was also raised by Mr. M. A. MacPherson, K.C., on behalf of the Regina Fuel Dealers' Association (Regina Sitzings - April 19, 1945 - Volume XXIX - Page 2652) and our comments on pages 18 and 19 of this memorandum constitute a complete answer thereto.

Winnipeg Sitzings - April 25, 1945 - Volume XXXII - Pages 2974-75

In the brief of the Great West Coal Company Ltd., read by Mr. F. H. Nerd and supported by Mr. J. R. Brodie, General Manager, it was stated:-

"It is our opinion that there is a tremendous market available to western coal producers, by Government assistance to overcome the very high freight rates. We have already demonstrated that, progressively, this market can be enlarged to substantial proportions. During the peak of the depression freight rates were lowered on the American side, at the instigation of the United States Government, to assist the coal industry. Application was made before the Board of Transport to continue these rates through into Ontario on a combination rate, resulting in laying down the coal at a lower cost than heretofore. This hardly seemed to be a logical step in view of the fact that the Federal Government was subsidizing western coal to get into that market then facilitating the holding of that market by lowering freight rates on an American product."

The facts in this matter are that in 1935 the Railways found that there was a great diversion from the all-rail routes to the rail and water routes of anthracite coal destined to points bordering the St. Lawrence River and Lake Ontario, and in an effort to regain this traffic, the United States Railways jointly with the Canadian Railways reduced their rates to a few such points. Rates to the interior points north of the St. Lawrence and Lake Ontario were however not disturbed. The Railways did not create this situation; it was forced upon them by competition. The coal would have moved via the United States lines to Oswego or Buffalo and thence by water if the Railways had not met this competition.

Winnipeg Sitzings - April 25, 1945 - Volume XXII - Pages 2976-77

In the brief of the Great West Coal Co. Ltd., mentioned above, reference is made to the rate situation on coal from Western Canada to the United States and in the reverse direction. It would appear from the proceedings that there was much confusion during the discussion as to just what was involved. With the view of endeavoring to clarify the matter it might be stated that:-

1. As to the reference to rates on coal from points in Saskatchewan and Alberta to destinations in the States of North Dakota, South Dakota and Minnesota, the situation is fully explained in the comments made on pages 15 and 16 of this

memorandum with respect to the submission of the Minister of Lands and Mines for the Province of Alberta (Edmonton Sittings - April 16, 1945 - Volume XXVII - Page 2365).

2. As to the reference to rates on coal from producing points in the States of North Dakota and Montana to destinations in the Provinces of Manitoba, Saskatchewan and Alberta, there are no through rates and the combination of rates to and beyond the international boundary is properly applicable. This is the same practice as prevails in the reverse direction.
3. Through rates have been in effect for many years on coal from Duluth to stations in the Provinces of Manitoba, Saskatchewan and Alberta. These rates are on the same basis or higher than the rates from Port Arthur and were published merely for the purpose of providing an alternative route through Duluth to the Canadian West on coal originating in the eastern part of the United States. As far as southbound coal traffic from Canada to the same territory is concerned, United States lines have declined to join in through rates, as explained previously in this submission.

BY MR. FRAWLEY: Mr. Spence, I have just been looking it up. That is what John Brodie said. They said they bring coal into Canada on favorable rates which have been set up by tariff and we simply can't send our coal back down there on the same rates, and you admit that and say that is quite so; the United States railways have not seen fit to establish such rates. That is what John Brodie is contending.

BY THE CHAIRMAN: And is there co-operation between the United States railways and our railways?

BY MR. FRAWLEY: Mr. Morrison in raising the question, on page 2977 of the Winnipeg sittings, said: "The point that you are trying to make is that if you bring coal in from a given point in the United States to market you can't ship back over that same line a carload of coal mined in Canada and land it at the originating point for the same cost? Mr. Brodie: That is what we maintain should be done."

BY THE CHAIRMAN: I am suggesting our railways could co-operate by refusing to give them the rates they are looking for.

BY MR. FRAWLEY: Yes, our railways should say, "We won't bring in your coal from Duluth if you won't do that." All that

is in the hands of the railways, and good business, or what they think is good business, dictates what should be done. However, we can ask the witness about that.

MR. SPENCE continues brief:

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Mr. J. Mowat, on behalf of the Federal Grain Limited, complained of a form of competition which is considered vicious and unfair and is known as "snowbirding". This apparently has reference to individuals who obtain cars of coal which are placed for delivery on the Railway Companies' team tracks and deliver the coal from the car by truck. These individuals operate only during a few months of the year and maintain no storage facilities, scales or office equipment. This the legitimate coal dealer considers an unfair practice which should not be permitted. The practice is one to which the Railways do not subscribe and the Canadian Freight Association has in force a ruling published by circular at Winnipeg on the 21st March, 1932, prohibiting the practice. Anyone violating this regulation of the railways is subject to a fine of \$40.00 for each offence.

BY THE CHAIRMAN: I see you say "legitimate". Is there anything illegal about what they call in the West "snowbirding"?

MR. SPENCE: Well, it is peddling on railway company property, which is prohibited by railway by-laws.

Q And of course the railways in that part of the country are very much interested in the distribution of coal?

A Yes.

Q Part of their business?

A Part of their business, yes sir.

Q But isn't that contrary to public policy?

A I beg pardon, sir?

Q Isn't that contrary to public policy that you are allowed to make restrictions, a penalizing restriction, on persons who want to deal with your road? They get the coal in over your road, the "snowbirds" as you call them, and then if

they go on your property to take delivery of the coal they are subject to a fine? Is that right?

A Perhaps that is not very clearly stated, sir. If they actually sell the coal from the cars on our property, that is prohibited. In other words, we can't discriminate by providing our yards for certain dealers to carry on their business in.

Q For yourselves, as a matter of fact, because in practically every station along the West the Canadian National and the C.P.R. have their coal deliveries, operate all their business.

A Oh yes, but the business is not carried on by an outside person on railway property. He may have his car of coal on our property and as long as he carries on his business outside of the railway premises ---

Q You don't just get my question.

A I beg your pardon.

BY COMMISSIONER MORRISON: I hope you keep enforcing that law on snowbirds.

BY THE CHAIRMAN: Not if I can help it.

BY MR. FRAWLEY: Suppose I bring a car of coal in and put it on a track, and if I have due regard to the demurrage rules what is to prevent me from inviting Mr. Matheson to take half of that load?

A Nothing.

Q What is to prevent me from going around beforehand and lining up about ten Mr. Mathesons and saying, "Come along with trucks when the car arrives and take one-tenth of the car of coal." Is there anything wrong with that?

A No, I don't think there is. It is a difficult thing to prevent entirely.

BY COMMISSIONER MORRISON: I don't think this Commission has jurisdiction to try the case.

BY THE CHAIRMAN: I don't know if Mr. Morrison has any authority to say that this Commission has no jurisdiction, theoretic-

cally. It seems to me that it is unfair treatment of citizens of this country who are trying to make a decent living.

BY MR. FRAWLEY: Whether it is right or wrong I don't suppose there is any doubt about it that your position in regard to this regulation was taken as the result of urging by people in what they call legitimate business, paying taxes in the community, who don't like this business?

A If we didn't have regulations of that kind our property and facilities would be used by all kinds of people for carrying on all kinds of business, and we must regulate that.

Q Of course the other point of view, that almost anything that reduces the heavy cost of distribution in this country should be encouraged, not discouraged?

A Yes. Are you suggesting that the railway should provide business premises for people engaged in the sale of certain commodities?

Q No, but what is suggested is that you should not prevent access to your tracks for the purpose of unloading coal from cars.

BY THE CHAIRMAN: For which they have paid your charges.

BY MR. FRAWLEY: Do you belong to the school that is opposed to them? There is another school that feels they should be permitted in order to reduce distribution cost. I am just asking you a question.

A I don't belong to one school or the other.

BY THE CHAIRMAN: Perhaps it is because the C.N.R. is a government owned institution that they are doing this--I am not saying anything the C.P.R.--a nationalization of everything.

A In the operation of the railraod, Mr. Chairman, as you probably undoubtedly know, the management is given a free hand, and certainly there is no intervention by our owners in relation to snowbirding.

BY THE CHAIRMAN: We are your owners.

BY COMMISSIONER McLAURIN: I think the snowbirds should migrate, myself.

A I am not familiar, of course, with the by-laws of all the companies, but I know how our own is worded and the only thing that it prevents is a person having a car of coal on our property and putting an advertisement in the paper to all and sundry, "Come down to my car and buy a truckload of coal," but if he goes up and sells his coal to various people before or after the car comes in and has it delivered from the car, I don't think you could stop that. I don't know that we want to. I mean, they are getting the car unloaded. It doesn't matter whether it is his truck or somebody else's truck that unloads it, but it is the cluttering up our property with a business that is not our business.

BY THE CHAIRMAN: Exactly so, with a business that is not your particular business, because you are interested in providing facilities for coal all through that country in a big way.

BY MR. FRAWLEY: And at so much a year? You lease your right-of-way to the United Grain Growers and other people?

A Yes, we charge storage facilities. The man using that pays demurrage for failure to unload, and he gets premises.

Q You don't charge him for premises, just for holding up the car?

A Exactly.

Q That concludes everything you have got to say in general, I suppose?

A Yes.

BY MR. FRAWLEY: I propose to follow Mr. Gouge and complete the cross-examination of this witness, so with your permission Mr. Gouge will now direct some questions.

BY THE CHAIRMAN: Personally as chairman I want to thank you two gentlemen. So far as I am concerned personally you have enlightened my mind a great deal on some of the questions that have arisen. I had my own ideas about them in a great many cases, but in some cases I had serious doubts. Generally speaking you have clarified the matter very well, from your standpoint, I think.

BY MR. FRAWLEY: Mr. Chairman, we have a little impasse which I think we can take care of quite readily. The railways now would like to put a witness on to deal with Mr. Gouge's supplementary brief and that is not at all unsatisfactory, because Mr. Gouge's supplementary brief does go back and deal with the question he dealt with in Calgary, so I think it better for Mr. Gouge to put his supplementary brief on the record, and then Mr. Curtis will be called by the railways to deal with that supplementary brief, and then Mr. Gouge can cross-examine generally on the whole subject.

BY THE CHAIRMAN: That is quite satisfactory.

Exhibit 227 - Supplementary Brief on Coal Transportation by Domestic Coal Operators Association of Western Canada -
supplementary to Exhibit 127

MR. JESSE GOUGE: I perhaps should apologize to this Commission for coming back a second time. However, I am not desiring to change or modify in any way the claims and representations we made in our original brief and are only approaching the subject from a little different angle, with different and supplementary evidence.

MR. GOUGE proceeds to read Exhibit 227:

In presenting the original submission on the subject of transportation of coal from Alberta to Ontario, at freight rates calculated on full train load shipments, from assembling points in Alberta, to some central distributing point in Ontario, where the full train could be most easily distributed, we suggested as tentative points for distribution, North Bay or Toronto. More careful consideration given to the matter has convinced the writer who prepared the former brief that neither of these tentatively suggested points is the most advantageous that might be selected, as neither approaches the actual centre of that most densely populated portion of the province, where domestic fuel is in greatest demand and where shipping distances from the distributing centre would be the least.

While there could no doubt be more than one such point of nearly equal advantage, we have decided that a much better point than either of those first mentioned would be Orillia. This central point involves little over one hundred miles longer haul for the entire train than would North Bay, but shorter hauls to a much greater number of possible consumers. To select Orillia would involve a readjustment of the tentatively suggested rates and this supplemental brief and the further arguments and evidence herein submitted will be predicated on this suggested centre.

If Orillia be chosen as the central destination of train load shipments, it would be possible to increase the train rate first proposed to \$9,000, or an increase for the approximate additional one hundred fifty miles of two thousand dollars revenue for the full train portion of the movement. The change of the distributing point would in no way alter the suggested rate of 1/2 cent per ton per mile for the shipments beyond the distributing point, but would permit the reduction of the guaranteed minimum distance to a radius of one hundred miles, instead of three hundred miles, and if distribution was made at a greater distance, the rate would still remain at half a cent per ton mile for the extra distance which would result in an increase of railway revenue to such points, over the gross amount suggested in our original brief. For the present and some time in the future, this circle with a radius of one hundred miles from Orillia would absorb all the domestic coal which could be supplied from Alberta, until such time as the mines were enlarged and more highly developed, which expansion in production would follow as rapidly as it could be accomplished.

With a wish to studiously avoid boring the Commission by any repetition of the data and arguments contained in our former brief, the new data, evidence and submissions herein contained are submitted for your kind consideration, with a continued and firm conviction that the rate can be adopted with profit to

the carriers and immeasurable benefit to the country and the coal industry, without subventions or subsidy.

Relevant to the inquiry and in support of the reasonableness of our proposals, we submit the following irrefutable data and comparisons.

MR. GOUGE: Now owing to some statement made in the original brief I desire at this point to read into the record something from the Molasses Case. This is from the Interstate Commerce Commission, Docket Number 4645, submitted October 28, 1939, decided December 4, 1939. I call the Commission's attention to this language particularly: "In 'Advances on Coal to Lake Ports', 22 I.C.C. 604,620, we spoke of the fallacy of placing reliance"--I want to emphasize that word "fallacy"--"on ton mile earnings as a basis for rate making, and said: 'As the Commission has heretofore found in many cases, a much fairer basis is that found in the earnings per car mile and per train mile.'"

The part of that that I wish to emphasize and get before you right now is the first two lines: "In many cases, a much fairer basis is that found in the earnings per car mile and per train mile."

BY COMMISSIONER McLAURIN: Now that is not in your brief?

MR. GOUGE: No. I am introducing it there because it is relevant to what I am going to say, and it answers in some way the statement ---

BY COMMISSIONER McLAURIN: I want to be sure I have the citation.

BY MR. FRAWLEY: It is officially referred to as 235 I.C.C. page 485. It is called the Molasses Case.

MR. GOUGE: That is the first case in which the I.C.C. ever approved and ratified multiple car shipments, but in this case it is said here that a much fairer method of finding out whether a rate is satisfactory and just is in the train mile earnings rather than in the rate per ton. That is easily understood, I think, when we see that train mile earnings involve all the elements of cost, transportation, high and low

classification, different rates, everything that can be mixed in, and we come out at the end with a real earning per train mile, and this argument in this brief relates entirely to the question of train mile earnings. (Continues brief):

(1) The train revenue of \$9,000 for the nineteen hundred fifty miles (from Lethbridge, Drumheller and Edmonton) of the full train movement, will yield a gross revenue per train mile of \$4.62 per mile to the carriers. Official records compiled from reports made by the railways to the Department of Trade and Commerce, show that this return per train mile equals the average freight earnings per train mile of all the railway companies for the period 1915 to 1934 and closely approaches the return of any year, up to and including the year 1942, when earnings have been strongly stimulated by war business.

Year Book - 1936 - Page 663

| YEAR | Receipts per Ton Hauled | Average Length of Freight Haul | Average Train Load in Net Tons | Average Load per Loaded Car Mile | Revenue per Freight Train Mile |
|----------------|-------------------------------|---|---|---|---|
| | \$ | Miles | Tons | Tons | \$ |
| 1915 (June 30) | 1.52 | 247 | 344 | 18.43 | 2.28 |
| 1916 " " | 1.68 | 316 | 411 | 20.91 | 2.69 |
| 1917 " " | 1.77 | 317 | 436 | 22.24 | 3.01 |
| 1918 " " | 1.79 | 303 | 457 | 23.10 | 3.36 |
| 1919 " " | 2.29 | 291 | 442 | 23.46 | 4.26 |
| 1919 (Dec. 31) | 2.43 | 295 | 434 | 22.21 | 4.36 |
| 1920 " " | 2.68 | 319 | 457 | 23.05 | 4.89 |
| 1921 " " | 3.10 | 318 | 447 | 22.12 | 5.37 |
| 1922 " " | 2.91 | 348 | 481 | 23.03 | 5.00 |
| 1923 " " | 2.84 | 333 | 512 | 26.44 | 5.05 |
| 1924 " " | 2.92 | 337 | 494 | 25.45 | 5.03 |
| 1925 " " | 2.95 | 338 | 519 | 25.11 | 5.25 |
| 1926 " " | 2.91 | 325 | 519 | 25.07 | 5.41 |
| 1927 " " | 2.85 | 329 | 514 | 25.30 | 5.29 |
| 1928 " " | 2.93 | 351 | 557 | 25.96 | 5.54 |
| 1929 " " | 2.79 | 304 | 523 | 24.52 | 5.74 |
| 1930 " " | 2.80 | 308 | 509 | 24.34 | 5.55 |
| 1931 " " | 3.03 | 347 | 514 | 24.68 | 5.20 |
| 1932 " " | 3.20 | 480 | 517 | 23.57 | 4.84 |
| 1933 " " | 3.17 | 368 | 521 | 24.92 | 4.98 |
| 1934 " " | 3.00 | 343 | 522 | 24.69 | 5.09 |

For this twenty-one year period the average earnings of all railways was \$4.67 per freight train mile. For the seven year period from 1936 to 1942 inclusive, the average for the year 1942 was \$5.51 - 1943 Y. B. P. 578. These average earnings by train miles include receipts from all classes of traffic from

double first class to tenth class coal.

The coal earnings being considered of \$4.62 per train mile is for a long haul of 1950 miles, full train, against average train load distance of four hundred miles and a full train all the way, the advantages of which are recognized by all railways and more fully analyzed later in this brief.

COSTS OF OPERATING - PER TRAIN MILE

Up to 1942 the railways reported annual costs of operating, by the train mile, and these figures are published in Trade and Commerce Year Book 1936, page 661, and Year Book 1944, page 578. The full table by years will not be included here, but the highest cost per train mile during that first period was in the years 1920 to 1921. The ensuing years from 1921 to 1934 show declining costs per train mile, reaching the minimum cost for the fifteen year period of \$3.12 per train mile in 1934. The average for the twenty-one years being \$3.20.

Since 1934 the table of operating expenses per train mile will be found in Year Book 1944, page 578. By this table the average cost per train mile is shown to be \$3.53, the highest cost being in 1942, a war year where the cost per train mile was \$4.03.

If we were to use the highest figure quoted of \$4.03 for train load cost per mile and compare it with our proposed revenue for the coal train to Orillia, of \$4.62 per train mile for the whole distance, the calculation would show a net profit of revenue over costs of operation of 59 cents per train mile or $14\frac{1}{2}\%$ profit.

If we deduct from this cost the 33% admittedly saved by reason of the train load movement, the cost would be reduced to \$2.79 per train mile and show a profit on our train load of \$1.83 per train mile. Actual operating cost per train mile during the seven years from 1936 to 1942 as reported to the Department of Trade and Commerce averaged \$3.53 and the average gross earnings \$4.40, which left an average profit of only .77

cents per train mile during this period for all traffic. The C.N.R. alone with train mile earning of \$5.09 for the high year of 1934 would show a profit of \$1.06 per train mile. (Y.B. 1936 - p. 674.) Where is the need of any subsidy here? On the basis of full average cost per train mile of \$4.03 (the high figure of 1942) without any allowance for train load movement and long distance, the profit on our train of 59 cents per train mile is large enough to pay well without subsidy. Allowing for the train load and long distance features, the profit on each train would be \$3,744.

THE TRAIN LOAD MOVEMENT

When we analyze the statistics applicable to this subject, on a train mile basis, the great saving in costs accruing from the train load movement becomes more easily understood. The following table will be found in Year Book 1943 - 44, page 585.

| | Receipts per Ton Hauled | Average Length of Freight Haul | Average Trainload Revenue Tons | Average Load per Loaded Car Mile | Revenue per Freight Train Mile |
|------|-------------------------------|--|---|---|---|
| | \$ | Miles | Tons | Tons | \$ |
| 1936 | 3.38 | 348 | 526 | 24.73 | 5.10 |
| 1937 | 3.29 | 327 | 514 | 23.90 | 5.17 |
| 1938 | 3.36 | 352 | 543 | 25.59 | 5.18 |
| 1939 | 3.38 | 372 | 602 | 27.28 | 5.48 |
| 1940 | 3.41 | 387 | 638 | 28.39 | 5.63 |
| 1941 | 3.61 | 428 | 686 | 29.71 | 5.78 |
| 1942 | 3.74 | 417 | 729 | 30.71 | 6.53 |

MR. GOUGE: Right at this point, I had presumed that the question of a saving by train load movement was so universally accepted that there would be no dispute about it. I discovered on hearing the brief submitted by the railways that they do say there is no saving by train load movement and they use the words, "If we examine it superficially it may seem to indicate that." On that point I would like to read into the record a little bit of evidence on that particular subject.

BY COMMISSIONER McLAURIN: You are reading from the "molasses case" again?

MR. GOUGE: Yes, I am. In this case, gentlemen of the

Commission, you will observe that there was a very exhaustive and complete investigation. It recites and enumerates a great many previous cases which had been up for a similar reason and had been disallowed by the Commission, and the language I wish to put in the record is --

BY MR. FRAWLEY: What page, Mr. Gouge?

MR. GOUGE: Page 501. This is a quotation from the original finding: "Furthermore the Illinois Central cost study indicates on its face that the cost of the loaded movement of this commodity in carloads is approximately 25% greater than the cost of moving 38 cars as a single shipment. If the empty-car movement be included, the excess cost indicated for handling the traffic in single carloads is 17%."

Now that is in response to the statement there has been nothing but superficial investigation. This is an exhaustive investigation by a competent court that had the matter under advisement and they say that the evidence conclusively shows. I think I will have some more to say about that perhaps in reviewing the evidence which we submitted.

12.00 NOON - COMMISSION ADJOURNED TO 2.00 P.M.

AFTERNOON SESSION

The Commission resumed at 2.00 P.M.

BY MR. FRAWLEY: Mr. Kern asked me last evening for an opportunity to make a further short statement, something that he should have called the Commissioners' attention to yesterday.

MR. ROY S. KERN: When yesterday Mr. Frawley asked me if there were any so-called trainload rates on coal in the United States, whether I forgot the situation or whether I was thinking only of the railways in the east I don't know, but I answered the question improperly by saying no. There is one commonly and erroneously styled trainload rate from Arkansas-Oklahoma anthracite fields to St. Louis. It is a rate that applies on quantities

of 2,000 or more tons. It was put in there as an aftermath or as a part of the scheme in St. Louis for abolishing the smoke nuisance. They passed an ordinance which prohibited the burning in handfired furnaces of coal having a volatility in excess I believe of 23%. In stokers any coal would work because it was then consumed with the desired amount of smoke. The Arkansas-Oklahoma people told the San Francisco railroad that they could answer the fuel requirements of the city of St. Louis. Resulting from that ordinance they put the rate in, and although the city of St. Louis claimed that they were going to use tremendous quantities on the basis of this missionary rate those tonnages have never materialized. There is a little movement in there but it is not enough to have affected the movement of eastern coal by all rail, the smokeless fuels of South West Virginia. I daresay there is 200 tons of eastern smokeless coal moving into St. Louis since the ordinance and trainload rate so-called for every one ton of Arkansas-Oklahoma, so aside from the political aspects of the situation, it got beautiful publicity for the Fathers of the city of St. Louis and for the Frisco Railroad, but the city of St. Louis has not benefitted to any appreciable extent at all.

BY COMMISSIONER MORRISON: Do you think the City Fathers of St. Louis would agree with that statement?

MR. KERN: Well, it has been published on a number of occasions in coal trade magazines, it has been stated to them in their councils, and the tonnage record shows it. I think the strategy in back of the minds of some of the St. Louis people was that that might be a vehicle for reducing the rates from the eastern coal-producing districts, and they tried mighty hard to do it, but it was not done.

BY COMMISSIONER McLAURIN: Do you know what the rate is?

MR. KERN: \$2.00.

Q How does the rate compare with the mile rate?

A I have forgotten what the distance is. It is something

under 500 miles. The rate is \$2.00 a ton.

BY COMMISSIONER MORRISON: What would that be in the mill rate?

A I think this statement shows something around 4 mills a ton mile.

BY COMMISSIONER McLAURIN: And what would the carload rate be for most of that coal from West Virginia?

A Our carload rate down there via the shorter routes would be approximately 5 mills and via the longer routes would go down under 4 mills.

Q Below the Arkansas rate?

A Oh yes.

BY COMMISSIONER MORRISON: Talk about comparable things--the standard practice over the same route and the same distance and the trainload rate over the same route and for the same distance?

A Their rate was \$2.75. The amount of reduction based on those 2,000 ton shipments was 75 cents.

Q What is that in mills?

A Well, \$2.75 would earn a little over 5, I think--6½.

BY MR. FRAWLEY: Now, Mr. Kern, in an appendix to Mr. Gouge's brief filed at Calgary, Exhibit 127, it is stated: "Coal from Fort Smith, Arkansas, to St. Louis - Distance, 416.5 miles. Cited Petroleum Rail Shippers vs. Alton, T.S.R., 1 C.C. 243, p.646. Single car rate per ton, \$2.75; multiple car rate, \$2.00. Percentage reduction, 27¼%." Is that a correct statement?

A Yes, but of course it is not complete, because when it comes to switching the \$2.75 covers switching and it is my recollection that the \$2.00 doesn't.

Q Might I suggest this, Mr. Kern, without imposing upon you. You would be in a position to obtain the precise information?

A I have all the facts in the office, because I filed a protest against that rate.

Q That is a good reason why you should be well informed, and

would you mind writing to us and putting that in a brief memorandum, so that we can find it in the tariff?

A I would be very happy.

Q Now I suppose you say it is not a trainload rate? You say it is erroneously referred to as a trainload rate, it is multiple cars. What is the minimum?

A 2,000 tons.

Q And this missionary rate, as you call it, is still in effect?

A That's right.

Q But you say not much coal is moving under it?

A No, the movement has been a big disappointment to the Frisco Railway especially.

Q You mean St. Louis is still getting its coal from other fields at ordinary single car rates?

A The bulk of the coal arriving in the city of St. Louis is coming in on per ton rates on per car shipments.

Q I suppose the Frisco Railway felt that there were enough economies involved in a multiple car movement that they could put in that lower rate?

A I don't know what their motives were but it is perfectly obvious they didn't get much business, they didn't effect many economies, and they didn't lose very much money trying.

Q You wouldn't go so far as to say they didn't expect to get it, it was just a front?

A They made a wonderful amount of highly desirable capital in the city of St. Louis.

BY COMMISSIONER MORRISON: Missionary work is usually carried out on a non-profitable basis.

A When I use the term missionary--we are prohibited by law from publishing any rate that doesn't at least pay the out-of-pocket cost, plus something in addition. That is a matter of law.

A And in this case this rate did cover those items?

A Well, one might presume that it was never tested.

Q Let's be frank about this issue, because you just told us the law in your country and the limitations placed on you by law. Now that being so, those same conditions were placed on this railroad that published this rate so it is not merely an inference, it is a matter of fact, that that must be paying out-of-pocket cost?

A That railway has never been required to prove that it is lawful in that sense.

Q Is it reasonable to assume that they are breaking the law?

A Lots of railroads break the law for many, many years before the Interstate Commerce Commission get around to finding out.

Q I took it from your statement that you are not allowed to publish rates that do not at least pay the out-of-pocket cost?

A The I.C.C. just last week decided all rates on armour plate in the east were unlawful, and yet they were the same or lower than the rates put into effect in the last war.

Q They didn't find out, they just caught up with them.

A Maybe they will with these.

BY MR. FRAWLEY: Will you just attend to this that Mr. Matheson has given me? The multiple car rate would figure out to about 4.8 mills per ton mile with a car of 50 tons, the regular rate approximately 6 mills per ton mile with a car of 50 tons.

A That sounds like good arithmetic.

Q Now another thing I want to ask you. At page 18 of your brief, Exhibit 225, you say: "Any action by Canadian authorities designed to prevent or curtail the importation of United States coals would tend to so reduce the coal carrying equipment and capacity and hinder the development of United States railroads as to threaten their ability to meet transportation demands should Canada again be forced by war or other crises to the same degree of dependence upon United States coals as in World War I and II." Now I think the most optimistic submission to this Commission so far has been that the Province of Nova Scotia would like

to see about 2,000,000 tons more coal coming up into Central Canada than came up before the war. Now just assume that that much extra coal did come in, as a result of further government assistance or whatever you like. Now to what extent would that much extra coal detrimentally affect your situation, both with regard to your coal carrying equipment and perhaps your dock equipment on the lakes?

A I wouldn't know, but if it were going to practically displace the tonnage now moving say through Lake Ontario ---

Q Yes, let's assume it would do that.

A It probably would ruin the docks on Lake Ontario, because it would take away about all the business they have.

Q You mean on your side or our side?

A On the American side. If you took 2,000,000 tons away from Sodus Point and Oswego you would not have anything left.

BY THE CHAIRMAN: Are you talking about war time or pre-war?

A Any time.

BY THE CHAIRMAN: Oh, it makes a big difference.

BY MR. FRAWLEY: You are now speaking of Lake Ontario?

A That's right.

Q You are not thinking of the two lakes together?

A That is why I prefaced my statement that if that tonnage were to be taken away from the docks in the United States on Lake Ontario it would mean that those docks would be no longer of any necessity.

Q Let's assume it would take some away from the Erie docks and some away from the Ontario docks?

A Well, of course I don't know the breakage point.

Q What I was putting to you was, it occurred to me that an extra 2,000,000 tons out of, how much came over last year? 24,366,000 tons came over.

A If we lost it out of that I would not foresee any difficulty but that is not what we are going to lose it out of. We are going to lose it out of the 10,000,000 or 12,000,000 tons that was exported prior to the war.

Q Oh, well now, just a minute. In 1939 there were only 9,900,000 odd exported. That jumped to 24,366,000 in 1944. It is this 1939 figure you are looking at?

A Yes.

Q And you say you shut back 2,000,000 tons of that and it might have a serious effect?

A Yes.

Q Now one more thing. Are you familiar with certain discussions that took place in 1941 between the Canadian and American railroads relative to the establishment of through rates from coal originating points in the United States to destinations in Ontario?

A Not with anything in 1941. Several years earlier I sat in and presided over several meetings with Canadian railroads.

Q Maybe my year is not right.

A I don't think it is wrong, because others had conferences that I was not in, later.

Q There have been discussions then between the American coal carrying roads and the Canadian roads relative to establishing through rates from originating points in the United States to destinations in Ontario?

A Yes, and I will tell you why. In 1932, I think it was, the Welland Canal was constructed, which had two instantaneous effects. The first was to divert tonnages from Lake Ontario docks to Lake Erie docks by reason of the lower vessel operating costs from Lake Erie to Lake Ontario, and the second, and perhaps the greater, effect was to divert coal from all-rail routes to rail and lake routes, primarily through Lake Erie. Now the first situation was at least to a degree helped by United States railroads with reduction on cargo coal rates to Lake Ontario ports. We reduced those rates in the mid thirties. I don't recall the measure of the reductions but I do know that the new rates to Lake Ontario were made on a relationship of I think 12 cents a ton over the corresponding rates to Lake Erie ports, that being

approximately the difference in the boat rates from Lake Erie and Lake Ontario ports to Canadian destinations on Lake Ontario or maybe the St. Lawrence River. The other situation obviously was a problem more acute from the standpoint of Canadian railroads. We had several meetings with respect to the establishment of--well, we talked joint through rates, we talked combinations and proportional rates, we talked anything that would tend to put all-rail coal into Canada on a transportation cost comparable to rail and lake. We had no object or motive of reducing the overall transportation costs of coal to Canada. It was merely a matter of trying to equalize as nearly as possible the lowest available transportation costs to Canada.

BY THE CHAIRMAN: And it was a move also to negative to some extent the subventions?

A Oh no.

Q Well, that was the effect of it? It must have been the effect of it?

A It was the building of the Welland Canal that did that, sir.

BY MR. FRAWLEY: I understand that those negotiations fell through?

A As far as the American roads are concerned, we have never talked with anybody, we have never seriously considered any action with respect to our freight rates tending to nullify your duty or your subventions, because we naturally think that would be a fallacy and a futile action, because you would have it in your power to retaliate by imposing greater duties, and I don't think there would be any sense in doing it.

Q Those discussions that took place fell through?

A That is correct.

Q Why did they fall through?

A We just couldn't get together on a matter of dividing.

Q I understand that the American railroads were willing but the Canadian railroads were unwilling. Is that right?

A I wouldn't go that far. I think they were both in a sense willing but one side thought the other side was insisting upon them absorbing too great a proportion of the overall reduction. I am not going to say that the American roads were right or the American roads were wrong, or the Canadian roads were right or the Canadian roads were wrong. We just didn't come to an understanding.

Q So that from the standpoint of all the roads that traffic was lost and now the great bulk of it goes over the lake on to the Toronto docks, and Montreal?

A That is correct.

CROSS EXAMINED By Mr. Gouge.

Q Do you publish any competitive rates from the Appalachian field to St. Louis from any of your roads?

A We think all our rates are competitive.

Q Well, I think you understand what competitive rates mean as well as I do.

A We call our rates to St. Louis depressed rates because in their history they were influenced by water competition.

Q New Orleans?

A From the Ohio River.

Q Now will you tell me what the rate is from Central Appalachian points to St. Louis, and the mileage?

A Well, the high volatile rate is \$3.22 per net ton, the low volatile rate is \$3.37 per net ton.

Q What is the distance to St. Louis?

A I don't know.

Q Can you tell me approximately?

A Well, the high volatile is something over 500 miles and the low volatile is something over 600 miles. I wouldn't want to be any more exact than that with the figures.

CROSS EXAMINED By Mr. Dysart.

Q Is it not a fact that despite the decision of the Interstate Commerce Commission in the "molasses case", to which frequent reference has been made here today, there has been practically no publication of trainload rates within the United States since that time, with the exception of the St. Louis rate which you mentioned?

A Speaking for the East, with which I am very familiar, there have been no trainload or multiple car rates of any description. As far as the West is concerned, I would rather have a Southern or Western man answer that; I don't know.

Q I won't press you for that. I understand you are a member of the Central Freight Association Coal and Coke committee?

A I am the chairman of the committee.

Q Does your committee and your Association favor trainload rates?

A Our members, at least when the last discussion of it took place, were unanimously opposed to trainload or multiple car rates.

Q I suppose that is reflected in the practice of the railroads in refraining from instituting rates of that kind?

A We protested the St. Louis rate, and we protested and succeeded in having suspended a proposed trainload rate by the Illinois Central on coal. That was limited to a power plant. That rate has never gone into effect.

BY COMMISSIONER MORRISON: What is the function of your committee?

A I can't say we make rates, but we do discuss freight rates and rules and regulations pertaining to coal, coke and iron.

Q And generally look after the interests of your constituent members?

A Well, and specifically.

BY MR. FRAWLEY: I am interested in your answers to Mr. Dysart. Why are you opposed to trainload or multiple car rates?

- A Well, I was on the witness stand in the Chicago thing for about a day and I don't think I said anything else than the reasons why we are against them. Basically, we don't think that they can be maintained without discrimination, we don't think they can be maintained without closing up a lot of routes, we don't think that they can be maintained without unduly favoring the big fellow at the expense of the little fellow.
- Q If trainload rates were established on a lower basis than carload, don't you think, if you had a coal industry 2,000 miles away from the market and you had a very expensive freight haul to face in any event, that you would want to examine the possibility of economies which might be reflected in solid train movements for the sake of endeavoring to get this anyway high rate reduced?
- Q Oh, I think it is always wise and good business for a road to examine the possibilities of doing anything to get business on a reasonably attractive charge.
- Q But in your jurisdiction you don't move coal 2,000 miles to market?
- A Oh no, a movement of that nature is trivial, negligible; merely odd cars of smithy coal.
- Q But when you consider that any Alberta coal that wants to get into Central Canada has to go 2,000 miles, would you not think that the question of the possible economies from trainload rates would be, and should be, meticulously and perseveringly examined by the railroads?
- A I think that the railways might very well look into all the possibilities, but if their success in figuring out what is going to be saved bears out past experience they will waste a lot of time.
- Q You think they will not find that anything will be saved by endeavoring to move it by trainload?
- A That's right. They are apt to find themselves spending a lot more money hauling a given number of cars intact than

if they would accept the traffic as offered and send it in the type of trains they had available and could operate on the various sections of their railway.

Q Would you not find that in fact that is how it is moved--that whatever coal is moved from Alberta into Ontario is moved in at least multiple car lots of at least 20 to 25 cars?

A Then if it is moved that way I don't see how you can have any economy in putting a tariff in to make it move that way. The rate is merely a unit of charge. It doesn't make any difference, if your rate is fair, if it applies on a car or a hundred cars.

Q Of course it all comes back to the fact that you say that there will be no economies whatever in a multiple car movement as distinct from a car today, a car tomorrow and one next week?

A We think in the end it will cost us more, because we can't operate railways in the most efficient manner.

Q Then why would you think that when the Canadian Pacific and the Canadian National established a rate to meet pipe-line competition on crude oil from the Alberta fields into the refinery in Saskatchewan that when they published the rate they said that it was applicable only when the commodity moved in lots of 25 cars or more shipped from one station by one shipper on one day on one bill of lading to one single destination? Now if they had to meet pipe-line competition, reduce the rate from 68 cents, then the rate published--actually it was just a fifth class rate and nothing moved on it because the oil was not discovered at that time--but when it was discovered, then they put in this 19½ cent rate. In other words, they made a big reduction because they were confronted with pipe-line competition, but wouldn't you say that the reason they put this condition into their tariffs was because they wanted to obtain the economies that would follow from moving in lots of 25 cars or more, shipped from

one station by one shipper on one day on one bill of lading to one single destination"? Wouldn't you think that was because they were trying to save money?

A I don't know what was in their mind, but I do know what was in the mind of the Illinois Central. That traffic was all travelling by barge and they wanted it on their rails. The Illinois Central didn't care particularly whether they got it on their rails on a car lot or multiple car basis, but they didn't want to interfere with single car movements that were in effect in the same territory. They said, "We only want to meet barge competition. We only want to offer a reduced rate with traffice that can move in quantities large enough to fill up barges." It was merely a device whereby the big fellow gets a low rate and the little fellow pays a high rate.

Q Let's just stick for a moment, because you are an experienced railwayman--do you think that once the pipe-line competition was threatened there that it would have been fair to expect the Canadian Pacific to move that crude oil in 45 barrel lots in a box-car at this pipe-line rate?

A Perhaps not, if they could get larger quantities.

Q Doesn't it necessarily follow that it would be unfair to expect them to move a 45 gallon drum in a box-car and they should very properly say, "If we have to move this at a pipe-line rate we should move it in trainload lots?" Isn't that fair?

A I don't see anything wrong, except I don't see why the same purpose couldn't be accomplished the other way, except maybe somebody they didn't want would get a low rate along with the fellow that had a pipe-line rate.

Q Do you say it would be no more expensive for this railway to move hundreds and thousands of 45 gallon drums in box-cars than it would be to move a solid train of tank cars from the oil fields down to Saskatchewan?

- A I am afraid I don't understand the question. My whole point is it would be just as cheap to move a hundred cars on a car lot rate on specific billing as it would to move a hundred cars on a trainload rate, if they added up to the same.
- Q What you say is, it was just as reasonable then to expect the Canadian Pacific when they published that tariff to say, "We will carry your oil at 19½ cents a hundredweight. We don't care whether you move it in 45 gallon drums or in trainloads."
- A If the result showed they got the same amount of business under any other rate, then their operation results would be identical.
- Q I am interested to know that. It seems extraordinary to a layman.
- BY MR. GOUGE: I think you answered those questions very vaguely and so indefinitely that I have taken the permission of interjecting myself. The reason you gave for not wanting trainload rates in the Appalachian district of the United States was that it would be preferential or discriminatory against smaller shippers. Wouldn't that be absolutely certain to follow any attempt to establish a rate on the distance you would have in the United States in that territory? You know there have been a great many of those rates overthrown by the Railway Commission, and all of them have been on that very point, they were discriminatory?
- A Oh, not all. They can upset them under sections 1 to 4, and 13, of the Interstate Commerce Act.
- Q Have they done that?
- A Oh yes, surely.
- Q The ones I have followed through have all been upset on the ground that they were discriminatory.
- A You have that Lake Cargo Coal case. That was not decided under sections 2 or 3, which are discrimination. That was decided under section 1, which was unreasonableness.

- Q Oh, it might be unreasonable, but would it be possible do you think, within a space of 500 miles to establish a trainload rate which would not be discriminatory and would not be disallowed by the I.C.C.?
- A If the I.C.C. follows the line of decisions that preceded this Black Strap molasses case, then the answer is a definite yes.
- Q That is one of the reasons why you don't favor trainload rates. The other is that you have got all the business there is there now and it would be pointless to reduce the rates because you couldn't get any more by competition?
- A Oh no.
- Q Who would you compete with?
- A Didn't you ever hear of Illinois-Indiana Western Trucking?
- Q Oh yes; I am talking of course within your Appalachian territory.
- A I am talking west of Chicago and St. Louis.
- Q You do have competitive rates to St. Louis which are lower than regulation?

BY COMMISSIONER MORRISON: That is the missionary rate.

- A No, our rates are not missionary rates.
- Q Oh yes, that is the depressed rate?
- A That's right. Under the law if the Commission made it, it would be a good deal higher.

BY MR. GOUGE: That's all I wanted. I thought that you mentioned those two reasons rather indefinitely and they didn't get them clear enough.

MR. GOUGE continues brief: (Exhibit 227)
(page 4446)

From this table/it will be noted that the average train load, which has been increasing, ran from 514 tons to 729 tons. This means that ordinarily it would take between three and four trains of average loading to equal one train of coal of 2,000 tons. By eliminating what would otherwise be two trains out of three, to get the same tonnage moved, is such a manifest saving as to

be irrefutable. It will be noted from the table that the average length of haul, of each train for that period ran from 348 miles to 428 miles. The length or distance of a train movement is of great importance. On the average, the carrier operated an average of five completed train trips, to transport average freight over distance of 2,000 miles. Every train movement means complete spotting or moving empties to place of loading, two full days use of the cars for loading, weighing, waybilling, and train manifest for each train, spotting at destination and two full days for unloading cars, besides the switching en route necessary in transporting mixed commodities to about as many destinations as there are cars on the train.

The average car loadings shown of 27.18 tons per car during this period would require the use of 73 box cars to handle the same tonnage of 2,000 tons, which a coal train would handle easily with 50 cars or less. The number of cars in service is important in car rental, car repairs, days use of cars for loading and unloading and switching charges.

The average receipts per ton of freight handled over this seven year period is shown as \$3.45. The return per ton we suggest on a full train of 2,000 tons would be \$4.50 to distributing point with added revenue for distribution. Every ton loaded on this coal train is certain to bring in a revenue of \$5.00 per ton or \$1.55 more in revenue than the average ton of freight handled on the C.N.R. system.

MR. GOUGE: That comparison is not quite so relative as it will appear. I am not pressing it because we are asking to take the train more miles and there should be more revenue for a longer distance than from 400. (Continues brief):

The railway transportation departments of all these railways did not make any mistake when they calculated reduced freight rates, for train load movement at 33% below ordinary one car traffic.

In discussing the possible saving in multiple car movement, the I.C.C. in *Petroleum Shippers vs. Alton*, Vol. 243,

page 649, says:-

"The record clearly indicates that the total time required to switch a 25 car block handled intact is only a fraction of the total time required to switch 25 cars handled individually.

"The reduced unit cost of handling cars in 25 car blocks intact, as compared to handling them individually should be recognized.

"We have stated previously that the cost of switching is more clearly proportional to the number of switches made than to the number of cars which must be handled."

On the subject of savings in wages, of a full trainload as against a small train, which might travel faster and cover a division in shorter time, the I.C.C. make the following observations:

"The importance of locomotive load is apparent from the fact that the wages of trainmen and engineers, which amount to about 40 cents per mile, are constant so long as it is not necessary to pay the crew at penalty rates, irrespective of the transportation produced by the crew. The cost of trainmen's and engineers' wages per train mile, for example, from Purcell, Okla., to Arkansas City, 154 miles is the same for a manifest train of 2300 tons using six hours, 15 minutes as it is for a drag of 2800 tons using 12 hours. The same principle is applicable to some of the other train expenses." (Petroleum Shippers vs. Alton, Vol. 213, I.C.C. page 653).

MR. GOUGE: Now that is due to a rule which applies in Canada, I think, that railroad men's wages are computed on the daily wage rate but made to conform with the travelled mileage, and if they make the trip in 6 hours and 15 minutes with a light train--and by the way, if you call 2300 tons a light train--the wages would be the same if they had 2800 tons using 12 hours. The trainmen get the same amount of money for one or the other, and that is cited as a saving in handling the bigger trains. (Continues brief):

The writer is informed that the same plan of paying trainmen applies in Canada. The wages for hauling a fully loaded train over a division, which consumes the full period of allotted time, is no greater than it would be for moving a light train, requiring half the time, because wages are made to conform to miles travelled, irrespective of the actual time consumed.

To illustrate the advantage of full car and full train shipments, we might assume that at the same time we start a full

train of 50 fully loaded, 40-ton cars of coal, destined for a 2,000 mile haul, the railways begins the shipment of 2,000 tons of miscellaneous freight, to be handled on the basis of the average movement, as shown by the statistics furnished the Trade and Commerce Department.

To begin with it would take 74 cars instead of 50 because the average loading of miscellaneous freight average 27 tons per car.

The average train load not freight is given as 605 tons pre-war; and to carry 2,000 tons would require three and one-third average trains.

The average length of freight haul is given as 376 miles, which would require 5 1/3 trains in the distance of 2,000 miles.

Therefore if these 3 1/3 trains started from Edmonton average loadings and stopped every 376 miles for complete unloading and loading up, the Company would have used 17 average trains in the service to transport 2,000 tons 2,000 miles. At the destination of every car load shipment there is a spot for unloading and two days full use of the car for this purpose. To start again requires spot for loading, two days full use of the car for loading, weighing, way billing, and switching back into another train. In the accounting made for the Railway Commission in 1927, the figures submitted were from the average cost figures made on average freight handling and one of the big items was maintenance and use of freight cars. If the same or new cars were used at the end of every destination and four days free use of the cars were given, the cars would be in use over twenty days doing nothing but loading and unloading. In that 1927 computation, the C.P.R. submitted an item for yard service, which is switching, which would amount to \$1034 for a 2,000 ton train and the figure submitted by the C.N. for switching would have amounted to \$780. The above illustration would seem to indicate that in handling average freight, these switching costs might accrue, but with a full

load train making continuous run, the switching would be eliminated at 15 division points, besides the elimination of switching single cars any time.

COMPARISONS WITH SOME OTHER PUBLISHED RATES

It would be manifestly unfair to compare freight earnings of freight trains, with the reported earnings of passenger trains. The reported earnings of passenger trains, for the period of 1936 to 1942 inclusive, show a per train mile revenue of only \$2.00, which emphatically sustains the carriers claim that passenger traffic does not pay. We desire to make no comparisons with rates, revenues or service which does not pay a profit. In passing it is difficult to understand why Mr. & Mrs. Gadabout are so painstakingly served, with palatial marble stations, luxuriously appointed cars, fast time trains, porters and dining car service, with trains given priority in right of way, all at much less than cost, while Adam Sweater, striving to keep industry going and the numerous consumer family, are charged with freight rates on all products and consumer goods to make up the passenger service loss. Passenger train cost and revenue afford no worthwhile guide in our study. We offer no suggestion of change.

There are, however, many published freight rates admittedly profitable to the carrier, which do not and cannot bring in a train load profit revenue equal to our proposed \$4.62 per train for a coal train to Orillia.

The oil train rate which we have mentioned before, between Calgary and Regina, is a good example.

Calculations for a Train of Oil - 25 cars

C. N. R.

| | |
|--|-----------------------|
| Rate 19¢ per hundred | \$3.80 per ton |
| 33 tons per car gross | \$125.40 per car |
| Less 3¢ per mile, car rental \$16.86 (net) | \$108.54 per car |
| 25 cars per train | \$2713.50 per train |
| 562 miles | \$4.79 per train mile |

CNR Sup. W-1922 to C.T.C. W1862 Item 1635 P. 119

| | | |
|------------------------------|-------------------------|--------------------------|
| Pulpwood anywhere | Mileage rate 1200 miles | 22¢ |
| Per ton 2000 lbs. | | \$4.40 per ton |
| Minimum Wt. 50,000 (25 tons) | | \$110.00 per car |
| 27 car train | | \$2970 per train load |
| 1200 miles | | \$2.47 per train mile |

If we should calculate a 50 car train instead of the average, the revenue would be only \$4.58 per train mile.

CNR W 1921 Sup to C.T.C. W 1862 Item 850 P. 74

MR. GOUGE: This is a rate to which I wish to pay particular attention. I think it is one of the worst I have ever seen. I hope to have some explanation for it from those people when they get on the stand. (Continues brief):
Hardware and miscellaneous merchandise naming 42 separate articles from Ammunition to Mineral Wool

| | |
|-----------------------|-----------------------|
| Winnipeg to Saskatoon | Rate 77¢ |
| Minimum 10,000 lbs. | \$77.00 per car |
| 27 car train | \$2079.00 per train |
| 470.3 miles | \$4.44 per train mile |

This is published as competitive with freight trucks and surely ought to win with this low rate for short mileage. Similar rates apply from Winnipeg to Moose Jaw and Regina.

Item No. 1110 P. 39 above quoted tariff

| | |
|------------------------------------|--------------------------|
| Logs Carrot River to Regina | Rate 8¢ |
| 2000 lbs. | \$1.60 per ton |
| Minimum 30 tons (largest size car) | \$48.00 per car load |
| 27 car train | \$1296.00 per train load |
| 350 miles distance | \$.370 per train mile |

Here again if we should use 50 car trains the revenue would be only \$4.57 per train mile

Same Supplement CNR as above Item 635

| | |
|---------------------------------------|-----------------------|
| Fertilizer Stock Calgary to Vancouver | Rate 30¢ |
| One ton | \$6.00 |
| Minimum 60,000 (30 tons) | \$180.00 per car |
| Average train 27 cars | \$4860.00 per train |
| 1003 miles CNR | \$4.83 per train mile |

Same Supplement CNR Item 640 P 63

| | | |
|----------------------------|----------------------|-----------------------|
| Fertilizer for manufacture | Calgary to Vancouver | Rate 30¢ |
| One ton | | \$6.00 per ton |
| Minimum 50,000 (25 tons) | | \$150.00 per car |
| 27 cars average | | \$4050.00 per train |
| Mileage 1003 | | \$4.03 per train mile |

Same Supplement Item 1103 A

| | |
|---|-----------------------|
| Logs from Shames to Prince Rupert (Competitive) | \$3.00 per M. feet |
| Car load 7 M. | \$21.00 per car |
| 10 car (quoted train) | \$210.00 per train |
| Distance 76 miles | \$2.76 per train mile |

If we increase this quoted train 50% the 15 car train would yield but \$4.01 per train mile.

Same Supplement CNR Item 600

| | |
|---|-----------------------|
| Feed, animal & poultry - Calgary to Vancouver | Rate 56¢ |
| One ton | \$11.20 per ton |
| Minimum 30,000 lbs. | \$168.00 per car |
| 27 cars | \$4536.00 per train |
| Distance 1003 miles | \$4.52 per train mile |

Same Supplement CNR Item 1755

| | | |
|---------------------|---------------------|--------------------------|
| Scrap paper | Calgary to Winnipeg | Rate 32 $\frac{1}{2}$ ¢ |
| One ton | | \$6.50 |
| Minimum 30,000 lbs. | | \$97.50 per car |
| 27 cars | | \$2632.50 per train load |
| 870.3 miles | | \$3.03 per train mile |

If average train was raised to forty cars, the revenue would still be only \$4.71 per train mile.

Both Railways quote a rate on lumber from Vancouver to Halifax of 94 $\frac{1}{2}$ ¢ per 100 lbs.

| | |
|--------------------------|-----------------------|
| One ton | \$18.90 per ton |
| 50,000 Minimum (25 tons) | \$472.50 per car |
| 27 cars average train | \$12757.50 per train |
| Distance 3411 miles | \$3.73 per train mile |

BY MR. FRAWLEY: I suppose that is to keep the business from going through the Panama Canal?

MR. GOUGE: Well, the Panama Canal was blocked the last six years, nothing went through the Panama Canal, and that is when this freight moved. (Continues brief):

If we should increase the train to 40 cars, which would be about 50% over average mixed train loading, in the year of 1942, the revenue per train mile would equal only \$4.94 per train mile. This has been one of the heaviest items of traffic moved during the war years when profits have been highest in

operating history.

An interesting comparison with some coal rates is possible.

C. P. R.

| | |
|--|---------------------|
| Rate Drumheller to Saskatoon 14¢ - competitive | \$2.80 per ton |
| Less switching charge from C.N.R. | .20 |
| Net rate per ton | 2.60 per ton |
| Minimum weight 40 tons | 104.00 per car |
| Average train load 27 cars | 2808.00 per train |
| 612 miles | 4.58 per train mile |

This calculation is made allowing for full capacity car loading 80,000 lbs., and for highest train load tonnage quoted for ordinary train loading. (See Y.B. 1943-44, Page 586)

Coal, Drumheller to Stettler (Competitive)

| | |
|-----------------------------|---------------------|
| Rate 7½¢ per hundred | 1.50 per ton |
| Less 20¢ per ton switching, | |
| C.N.R. - competitive | 1.30 per ton |
| 40 tons per car | 52.00 per car |
| Average train load 27 cars | 1404.00 per train |
| 262.2 miles | 5.38 per train mile |

Here again we have used the highest average of 1942 train loadings and not the average for the past seven years.

HAY AND STRAW

| | |
|------------------------------|---------------------|
| C.N.R. to Vancouver | |
| Drumheller to Vancouver 48½¢ | 9.70 per ton |
| 12 tons, maximum loading | 116.40 per car |
| 27 car train, average | 3144.80 per train |
| 951 miles | 3.30 per train mile |

Hay and straw have published mileage tariff applicable anywhere and the rate is 35¢ for 500 miles with a minimum of 10 tons. On this mileage tariff a train load of hay, minimum weights would earn \$3.90 per train mile, anywhere over a distance of 500 miles.

SHAVINGS - WOOD

| | |
|-------------------------------------|---------------------|
| Mileage Tariff 1000M 33¢ | \$6.60 per ton |
| Minimum 22,500 lbs. 11½ tons @ 6.60 | 74.25 per car |
| 50 car train at \$74.25 per car | 3612.50 per train |
| 1000 miles | 3.61 per train mile |

To keep this rate from showing too bad against the carrier, we figured on a 50 car train, instead of the average 27.

Many of the above illustrations are from Competitive Rates, some are not. They do not, by any means, exhaust the list, which is very numerous. They are sufficient to show that a very large portion of the freight moving does not earn as much as \$4.62 per train mile, which we suggest as fair for a train

load of coal from Alberta to Orillia, Ontario. These illustrations are for ordinary hit and miss short haul and small train shipments, whereas we have shown elsewhere the cost per train mile would be higher. Because a rate is Competitive does not mean that it is not profitable. Our experience is that the railway freight solicitors are as energetic seeking traffic at the competitive rates as any other.

In all our calculations for the through freight, full train shipments we have confined the illustration to a 2000 ton train. In the natural evolution of efficient railway operation this is not the maximum and will be exceeded in a very few years. Way back in the year 1922 Mr. Mallory, before the Senate Committee, fixed a train load at 1800 net tons and certainly we have increased efficiency and capacity more than 200 tons per train since that time. The railways now are building new box cars with 100,000 lb. capacity and over, and both railways are acquiring dump cars with 120,000 lbs. capacity. With this movement 50 and 60 ton cars, similar to the coal movement in the U.S.A., may be expected and soon. If we could move 50 cars of 60 ton loading or 3000 tons in one train the train mile revenue to Orillia would be \$6.92 per train mile. With these larger cars it could be done now, with less double heading of locomotives than the C.P.R. uses crossing the mountains from Calgary to Vancouver. A 3000 ton coal train in the American coal trade is not unusual.

COMPETITIVE RATES

The writer has had no access to the library of decisions of the I.C.C. or the Canadian Board of Transport Commissioners, hence is not able to say exactly what these authorities have defined as "Competitive Conditions".

Without the guidance of any legal authority, we venture the opinion that the movement of Alberta coal to Ontario should be classed as positively competitive and call for rates on a competitive basis. True, the competition is between a Canadian commodity and an American commodity of similar nature brought to

the same market by American carriers. There is no question about the competition between the commodity coal from the United States and the commodity coal from Canada, which competition is now so serious at present freight rates as to eliminate the Canadian product and with it the freight haul, which might be enjoyed by the Canadian carriers. While the transportation begins at two different points, they arrive at and compete in the same area and at the same points. The competition is primarily a competition of transportation costs - American vs. Canadian.

The fact that our Canadian carriers now get the short end of this traffic on a fraction of the American imports should not be of sufficient importance to alter the competitive nature of the main volume of the traffic for two reasons -

(1) To forego the transportation earnings on a long haul, with the originators getting all the revenue, for the insignificant cut after the originating carrier has shared like a lion does, is swapping a birthright for a bowl of soup.

(2) Judging by the mines' experience in Alberta, where highways are not so good as in Ontario, this short distance distribution from Lake ports, may be undertaken by freight trucks to the complete elimination of our Canadian carriers. Even before the war, the competition of the trucker hauling coal for about 150 miles from the mines in Alberta in every direction was so serious that special rates for short distances were published to meet this destructive competition. No freight trucks can ever compete on the long haul, heavy traffic. The low competitive rates published between Winnipeg and the Prairie cities, herein quoted, show how serious this truck competition may become even up to 300 or 400 miles. These proposed rates should be classed as competitive in nature.

Our original brief, with conclusions based entirely upon long and in some cases conflicting evidence of per ton cost of transportation, modified by the application of the Train Load principle, we still feel, established beyond doubt the feasibility of all rail transportation of our product to Ontario, at

a rate both low enough to be workable and high enough to be profitable. This study of train load revenue we believe makes the proof conclusive.

Unless a negotiated rate can be arrived at by agreement with the railways, we again request that this Royal Commission recommend to the authorities to whom you will report, that steps should be undertaken to establish a rate such as we propose.

BY MR. FRAWLEY: Does that last phrase mean that the recommendation of the Commission should be a recommendation for the erection of a statutory rate by Parliament?

MR. GOUGE: I wouldn't like to say that. Personally I don't like statutory rates. I haven't given up the hope yet that there might be such a thing as a negotiated rate with these railway companies.

Q But failing that must there not be a statutory rate?

A Of course the matter will take its own course, whatever it might be. My own feeling now is that if this Commission is convinced that this matter is feasible they should make a recommendation. I believe it could be done. I think the effect, the force of that recommendation would be such that the railways would be amenable to some kind of negotiated rate. I may be wrong. So I don't want to suggest that we apply yet for any legislative rate. You will notice I have kept carefully away from that, because I know how our friends feel about the grain rate in the West. The grain rate is 20% lower than the coal rate almost everywhere.

CROSS EXAMINED By Mr. Dysart.

Q There are one or two things that aren't quite clear to the railways and we would just like to have the matter clarified. Mr. Gouge, you make several comparisons with other published rates?

A Yes.

Q On pages 10 to 16 or 17 of your brief, and you make your calculations as to the revenue per train mile on the basis of

the mileage shown in each one of those examples. Have you taken on competitive lines the mileage of the short line or the mileage of the long line?

A I am taking the mileage of the rate quoted, and I mark it competitive if it is competitive.

Q But you are aware that the railway with the short line hauls a considerably shorter distance?

A I am aware too that they make the rate to begin with and it is the option of the other to take it or not. Where they take it, I take it they are satisfied to take it.

Q That is perfectly true, but where you take the Canadian National, and you know that the Canadian Pacific can short haul the Canadian National, and the rates are competitive, you must be aware that the revenue per train mile is considerably higher than you have shown here?

A I know it is for the railway that has the shortest mileage.

Q So that actually these illustrations are not quite as accurate as they would appear to be at first glance?

A Well, I state there that many of those are competitive rates, but I assume that that doesn't make them unprofitable.

Q I am not speaking about the unprofitableness of the rates. You are predicating, as I understand it, your argument to this Commission that we should have train load rates on the basis that they would produce a revenue per train mile comparable or higher than rates earned on other commodities, examples of which are quoted in your brief, and you represent to the Commission, for instance, that on a mileage of 1003 between Calgary and Vancouver the revenue on fertilizer stock is \$4.83 per train mile. What I ask you is, are you aware that the mileage on the Canadian Pacific is considerably shorter?

A On that particular item their revenue per train mile would be higher.

Q But were you suggesting to the Commission that \$4.83 is a representative figure?

A Is a representative figure for that quoted illustration.

Q I suggest to you that it only gives part of the picture, that part which relates to the line whose rates you quoted?

A I don't think I made any misrepresentation. I pointed out that many of these were competitive rates.

Q I am not suggesting you have misrepresented anything. All I am suggesting is that you are only giving part of the picture, and I presume you are prepared to admit that?

A Oh yes, there are plenty of rates in the book that are higher and lower.

(Page 4476 follows)

1. But you are speaking for instance of the two railways instituting trainload rates, and you are arguing that the revenue that the railways (both C.N.R. and C.P.R.) would derive from the handling of traffic in the method you suggest, would be comparable to the ^{train mile} revenue that they would derive from other traffic, and you give these examples, and I suggest that while they may be theoretically correct in relation to the railway with long distance hauls, and it is not correct in relation to the railway that has a short haul?

A. There are lots of rates that are higher and produce more revenue. We are dealing with something that is an emergency rate and trying to find some rate that will bring coal down. I think that while they are handling a tremendous lot of freight now, that that does not produce as much revenue per train mile, that you might strain a point here and give a rate as an emergency measure.

Q. I am suggesting that I can understand what you are driving at and trying to get this Commission to recommend, and I respect your opinion, but I would like to ask if you have any knowledge of the mileage on the C. P. R. between Calgary and Vancouver?

A. Yes.

Q. Suppose I say 641 or 642 miles?

A. That is close.

Q. Taking the theoretic mileage, or the actual mileage of 642 instead of the 1003 miles which you used in the second illustration on page 12 of this supplementary brief, would you say \$4.83 per train mile is the correct figure?

A. Not for Canadian Pacific.

Q. It would be considerably higher?

A. Yes.

Q. And that would prevail in each of these illustrations where there are two lines of unequal length?

A. Yes.

Q. It would be untrue for the line with the short haul?

A. The line with the short haul sets the rate, and the other immediately covers with the same rate on their own line. I don't think they would do that unless it is worth while.

BY MR. FRAWLEY - It means that, taking Mr. Dysart's example from page 12 of the supplementary brief, assuming the arithmetic to be correct, that the Canadian National earns \$4.83 per train mile hauling this particular stock from Calgary to Vancouver, and they would leave it there for Mr. Jefferson to haul unless they thought it profitable.

A. I think.

Q. And they take it, although when the C.P.R. takes it they make more because the mileage is shorter?

A. It works the other way.

Q. The Canadian National hauls I suppose thousands of pounds of it at \$4.83 per train mile?

BY COMMISSIONER McLURIN - It does not necessarily mean that that movement is making money.

BY MR. FRAWLEY - But Mr. Gouge is putting it to the Commission that they are making \$4.83 per train mile, and he says they should be happy to take \$4.62 to haul his coal to Ontario.

BY MR. DYSART - What do the Canadian Pacific say?

A. They say we cannot afford to take it.

BY MR. GOUGE - I would call your attention to another thing, the Saskatoon rate on coal. . . There the shoe is on the other foot.

BY MR. FRAWLEY - Drumheller to Saskatoon?

A. \$2.80 from Saskatoon. . . The C.P.R. put the same rate although their mileage is longer.

BY MR. FRAWLEY - This is C.P.R. \$4.58 per train mile. Does anyone know the C.N.R. mileage?

A. 315, and the rate is \$2.80.

BY COMMISSIONER MORRISON - That is to Saskatoon?

A. Yes.

Q. And before you leave that point, they are competitive originating points. Do you find the C.P.R. soliciting business to ship to Saskatoon in spite of those conditions?

A. I surely do.. I don't know that Mr. Jefferson would take any objection to my telling you of a little instance. We ship a great deal of slack to the University at Saskatoon, and we made a deal with the railway companies that we would give each railway half. There arose a contention over some demurrage because the C.P.R. cars come under demurrage much quicker than the C.N.R. cars. And the mine might work on Monday, and not on Tuesday or Wednesday, and then work again on Thursday, and if we had a C.P.R. car in we always had to pay heavy demurrage on it. I spoke to Mr. Drew about it three or four times and he stated the rules to me and said there was nothing he could do. I said it was impossible to keep up the arrangement, because this is low cost coal and we can't pay demurrage on it. Then we started shipping more than half on the C.N.R. and we got a notice from the C.P.R. that from henceforth this coal shipped via C.N.R. would not be switched without an extra switching charge, although the switch was within the four mile limit. It didn't worry us very much because the C.N.R. published the rate and we felt that they would protect us, which we asked them to do. In a few days we got a notice that this switching charge put on at Saskatoon was taken off. We have always tried to give the C.P.R. the full 50 percent of that business whenever we could without any serious loss, but they are very insistent upon getting it.

BY MR. FRAWLEY - You don't find when they have the longer haul that they leave the business to the short haul?

A. No.

BY COMMISSIONER McLAURIN - Is there anything very startling about that?

A. No.

BY COMMISSIONER McLAURIN - If I were running a railway business there might be a thousand reasons why I would want to haul coal to some place.

BY MR. FRAWLEY - I suppose they will have the short haul on other business. What they miss on the swings they make up on the roundabouts.

BY COMMISSIONER MORRISON - That is what Mr. Gouge is trying to make out.

BY COMMISSIONER McLAURIN - As Mr. Dysart brought out on cross-examination, if we are going to have an analysis of rates for rate purposes, you should in every case take the short haul rate and not the long haul rate.

BY MR. FRAWLEY - I certainly see the force of what Mr. Dysart said, but a lot of traffic moves on this long haul and it can't be dismissed lightly.

BY COMMISSIONER McLAURIN - I don't want to interfere with your line of inquiry Mr. Frawley; but the railways have made representations to us Mr. Gouge, and you saw their brief and the charts.

A. Yes.

Q. Evidently there is no such thing as a solid train. A train is 50 cars at one time, and 20 at another. Does that now blow up the whole idea of having a solid train from a particular operating point of view?

A. I don't think that will follow. I am very glad to have those graphs, and I want to enlarge upon them before this Commission.

Q. Take say from a certain division. On some of the prairie divisions they can have say 100 cars or 75 cars, whereas with a graph with a rising grade they can have perhaps only 25 car trains north of Lake Superior.

A. That appears on one graph only. On the other one, the C.N.R..

Q. Take the C.P.R. graph first. Just to admit the question of principle that you will have different numbers of car trains in a solid train movement.

A. I won't admit that, because I don't think it would follow, because in the first place...

Q. I don't want to interrupt. You say it does not follow because you do not accept as authentic the information..

A. I am not questioning the Railway's statement. The reason why that graph might be made to look a little worse than it actually is, when the C.N.R. say they can take this trainload

the Hanna Division, (I know where that is), after they are 8 miles out of Drumheller they are on the top, and that is always a double-headed proposition there. After this train reaches the top of the hill it will have no trouble on their graph from there to North Bay.

BY COMMISSIONER MORRISON - Which is their graph?

A. "B" They make a cut off there in one illustration from Capreol to Orillia in which they cut the train down to 48 cars in one place, but knowing the aptitude and the general habit of engineers in estimating what to allow as a margin of safety, I don't think they would have any trouble in taking the other two. I would hate to have the Commission find that the C.N.R. could do this, and the C.P.R. could not.

BY COMMISSIONER McLAURIN - Even on the basis of the C.N.R. graph, you are down to 40 cars, are you not?

A. 50 to 78, I think. From Capreol towards Toronto, that is 54. From Capreol to North Bay, that is another route. From Drumheller to North Bay, outside of this first division here the C.N.R. is clear.

BY COMMISSIONER McLAURIN - To where?

A. To North Bay.

Q. If we want to get the coal to Orillia we can't leave it off at North Bay.

A. There is a short distance there.

Q. If we take the Orillia point we will run into this figure of 40.

A. No, 48. To the old Grand Trunk is slightly longer in mileage than from Capreol down.

BY MR. FRAWLEY - If you had known that, Mr. Dysart, you could have made your chart to show Orillia.

MR. DYSART - It would not go into North Bay. From Capreol to Perry Sound and then to Orillia.

BY MR. GOUGE - I have the miles worked out on that. I don't want to overlook this while I am discussing it with you. If we take the mileage from Capreol to North Bay on the C.N.R., the first division they say 48, which is only 2 less than our train

would carry, and I am quite sure the engineers leave a margin of safety, and it would take those 2 cars. From there on, a distance of 85 miles, I am willing to say to the C.N.R. cut the train in two, and add that 85 miles to the total train mileage and it gives you 470 I think by the train mileage if you cut that train in two over that last short section.

BY COMMISSIONER MORRISON - There are one or two places in the chart where I see 66 and 78.

A. That means that they can carry more than the train called for if they were called upon to do it, and it would not add anything to the cost.

Q. You are talking about running trains to their maximum efficiency and if they are running over these points, 66, 63, and 78, at less than their maximum efficiency, which this chart indicates they are doing now..

A. I don't think that chart has any indication of what they are doing now. That chart indicates capacity, not experience.

Q. As I take their brief, they are operating from their own point of view at maximum efficiency. They certainly left the impression of how satisfied they were with their own efficiency.

A. Let me tell you Mr. Commissioner, you can tell what the railways are doing now by reports in the railway statistics. They are not operating 78 car trains, because they would not have an average train movement of 27 if they were.

BY MR. FRAWLEY - Mr. Knowles can tell us if they are operating there at 78 cars.

BY MR. GOUGE - Here is the difference between what they talk about and what we propose, and I want to get this distinction clearly before the Commission.. This movement will not take anything off of the train movements that move now. This is a through train that must go all the way and is guaranteed to carry so many thousand tons. Nothing can be taken on at Winnipeg, or nothing put off. It would be quite different if this was a multiple car shipment that had to be included in other train load traffic, because it might interfere in some way with the

Winnipeg. In other words, that they will have no room for anything else.

business. It will not break up anything, or add anything to or take anything from the present traffic. It will go through all the way, under one billing to one consignee. It is possible, and that objection was met in the United States in this Alton case, that the shipment might interfere with some other traffic because certain amounts of oil were moving at that time over this same line. They expected to see the movement of oil which was already taking place, withdrawn under the general movement and put into the special train, and that would have the effect of disrupting the present movement. But the Railway Commission said that was dealing with a temporary condition, which was changeable all the time, and this was made for a long term matter, and the simple fact that it did disrupt their other movements should not be allowed to militate against the adoption of the rate. Here we have not that situation. We will not put anything on their movement, or take anything off. The traffic moving now would be the same as it has been.

BY COMMISSIONER McLAURIN - It needs crews; and if they have motive power on one division which will take 75 cars, this scheme on a 50 car basis invites inefficient movement.

A. Not so much as to use that same engine on a 27 car train. The average train now is only 27, and they use the same locomotives.

BY MR. FRAWLAY - You do contend that if they come to a division where the maximum calls for 70 cars, you suggest that your 50 car train should go through that division?

A. Yes, to one destination.

Q. It is obvious that that is cutting down the efficiency. You say 70 is a theoretical capacity, and they are not carrying 70 car trains?

A. That is the reports they make to the Trade & Commerce Commission.

BY COMMISSIONER McLAURIN - You have been here since we started Mr. Gouge?

A. No, only part of the time.

Q. I was looking at Mr. McElvany's booklet. On page 26 he has a lot of movements. Rate per ton from Reynoldsville to Buffalo \$1.56

from Fairmont to Lake Erie ports \$1.76, and so on, and the rest of the rates are along the same line. There you have a group all fighting for business.

1. Not fighting for it hard enough to reduce rates to get it.

2. That is just what has been going around in my mind. From what I know of the American Railroads, I think they would fight pretty darn hard; I can't imagine free enterprise in a more competitive picture than with those people. Certainly they have to stabilize and not just have dog eat dog. But on the basis of their figures multiplying the mileage by eight times it would look as if the present rate from Toronto is not the mill rate.

A. I am not dealing with mill rates.

Q. With the car mile rate from Montreal to Kingston, compared with the same distance from Pittsburg to Lake Erie Ports, the per car mile revenue in Canada is lower in that specific illustration than in the United States.

Q. With coal moved on any economic terms from West to East, I am naturally interested in your submission, but I have to be frank and I think you are selling me a bill of goods that is too good to be true. I might as well be realistic.

A. We pay \$1.50 for 70 miles. You say that includes a lot of service, bringing the empty around and weighing it, and 2 days to unload it. And if it is only a short distance, they must be higher.

BY MR. FRAWLEY - Your whole brief is premised on train miles.

I would like to see these rates that Mr. McElvany refers to translated into rates comparable to the rates you have used.

A. You could not do it on short haul.

BY COMMISSIONER McLAURIN - Mr. Kern admitted that you got a lower rate for a longer haul.

A. The condition is perfect for getting full benefit of the long haul traffic.

Q. You would not attempt to make a comparison of this kind if you were dealing with a short haul proposition?

A. Absolutely not. However, regarding this inability of the C.P.R.. I don't want to question this graph, but I hardly believe that a great big railway system like that, that has built a railroad over the top of the Rockies and operate through the Kicking Horse Pass with the efficiency they do, could get stymied with a couple of hills here in Ontario. They can get over it and I am sure they will.

Q. I don't think we need to worry about one railway or the other, if they are going to compete.

BY MR. FRAWLEY - I think you want to put Mr. Curtis on now to make a subsequent statement in answer to Mr. Gouge's brief.

A. A. CURTIS (Sworn) EXAMINED BY MR. DYSART

Q. Mr. Vurtis you are employed by the Canadian National Railways?

A. Yes.

Q. What is your position?

A. Research Assistant, Department of Research and Development.

Q. How long have you occupied that position?

A. I have been in that position since 1941.

Q. And what has been your experience with the Railway before that?

A. I commenced with the Railway back in 1913 in the Operating Department, and continued in that Department until 1923 when I became associated with our Bureau of Statistics, which compiles statistics for the Railway and for the Dominion Government.

From then on in that department I held several positions, most of the time as Cost Accountant. From that I transferred to the Department of Research and Development.

Q. You were present in the room this morning and this afternoon when Mr. Gouge read to the Commission his supplementary brief on coal transportation, which is Exhibit 227, and a copy of which I show you?

A. Yes.

Q. Did you have an opportunity of reading that brief before you came in today?

A.. Very cursorily.

Q. Have you had an opportunity of making a study of it?

A. Not completely; only partially.

Q. Will you tell the Commission what your cursory study revealed?

A. The statement on page 3 that the railways would receive a revenue of \$4.62 per train mile for hauling Alberta coal to Ontario is incorrect and is based on a misunderstanding of the train miles required in this connection. Actually this figure should be \$2.31 per train mile.

Q. What is the reason for that?

A. The reason is that the Domestic Coal Operators' Association have first assumed that the railway earnings for the haulage of a train of 2000 tons of coal from Alberta to Ontario would amount to \$9,000, and then have divided this \$9,000 by the distance 1950 miles, and find as a result \$4.62.

Q. Is that method of calculation correct?

A. It is not.

Q. Can you explain why not?

A. The reason is that the Railways would have to provide 3900 train miles in order to move this 2000 tons of coal. The reason for this is that the train and engine crews and the locomotives, not to mention the cars which handle this coal, have all got to be moved back to their original starting points, and as present West bound traffic is not sufficient to fill present west bound trains, it is clear that these additional west bound train miles, that is the train miles of the crews and locomotives that brought the coal East, that these additional west bound train miles will not have any traffic to handle except of course the coal empties.

Q. What is the effect of that?

A. The effect is that we have to include these additional train miles in finding the revenue per train mile of our coal trade.

Q. And on the basis of the proper method of calculation that you have just described, what is the correct per train mile revenue?

A. \$2.31.

Q. As opposed to \$4.62 indicated in Mr. Gouge's supplementary brief?

A. Correct.

BY COMMISSIONER McLaurin - Is that just half?

A. Yes.

Q. There should be some allowance made for that portion of the cars which would go back with a pay load?

A. This has not anything to do with the cars, but it is a movement of the crews and locomotives. The Railway is split up into a series of subdivisions, and when you move a coal train you move a crew from the Westerly end to the Easterly end, and that has to be brought back before you can move another train.

Q. That crew goes back with a pay load?

A. No, because we have not sufficient west bound traffic to fill our west bound train. We fill our East bound trains.

BY MR. FRAWLEY - What do you mean by under current conditions?

A. Present conditions.

Q. War years?

A. No, normal.

Q. Contemplating peact time movement of coal?

BY COMMISSIONER McLaurin - It is a natural thing between Toronto and Winnipeg to have a lot of dead-head crews on east to west?

A. Yes.

Q. That is a very normal situation?

A. We use the term dead-heading of crews when we send them back on another train. These crews would not be dead-headed back in that sense because the locomotive and caboose would have to go back, and it takes just as much to take them back as when taking the trainload east.

Q. In reaching the conclusion that the revenue per train mile is \$2.31 and not \$4.62 as shown on the top of page 3 of Mr. Gouge's supplementary brief, you have merely divided into the revenue which he says will be earned, \$9,000., the train miles of 3900?

A. Yes.

Q. That is the correct method of obtaining a true picture of the situation?

A. That is right.

Q. Have you any other comments to make with respect to that brief?

A. The comparison of the \$4.62 revenue per train mile, which figure we claim should be \$2.31 for the movement of Alberta coal to Ontario, that is the comparison of this figure with the average revenue per freight train mile for Canada as a whole, is fallacious, because the revenue tonnage carried by the average Canadian freight train is only about a quarter or a third of our hypothetical coal trade. In 1942 the average freight train for all Canadian Railways had a load of 729 revenue tons and produced a revenue of \$6.53 per train mile; not the \$5.51 that was shown.

Q. Where does that figure of \$6.35 come from?

A. That is obtained by dividing the total revenue received by Canadian Railways for freight service by the train miles in the freight service.

Q. How about the theoretical and hypothetical coal train?

A. Our coal train had a load of 2000 tons, but produced only \$2.31 per train mile.

Q. When you speak of the coal train producing \$2.31, is that supposition that a train that would have a gross revenue of \$9,000 would produce \$2.31, or is that an actual figure?

A. No, it is a supposition, the proposed coal train which would produce \$9,000 would not us \$2.31 for each train mile we would have to run.

Q. In other words you are accepting Mr. Gouge's statement that the train will earn \$9,000 gross revenue, and you say that the revenue per train mile on the basis of the gross revenue will only be \$2.31?

A. That is right.

Q. Will you continue?

A. Had our average train been as heavy as our coal train, it would have produced a revenue of \$8.96, a very much larger figure than the \$2.31 per train mile actually produced by the coal.

Q. I will leave it at that. In other words if the trains of other commodities were trains of 50 cars at 2000 tons, or whatever the figure was Mr. Gouge mentioned, then it would produce a revenue of \$8.96?

1. That is right.

2. Mr. Gouge makes reference on pages 4 and 5 of his supplementary brief to various items which he has headed "Cost of Operation per train mile". Are those the gross operating expenses of the railway divided by the total train miles?

A. They are.

3. Do they include just freight service, or passenger service, or what?

A. They include the cost of passenger service as well.

4. Is that lower or higher than freight?

A. Generally speaking, lower.

5. Are they comparable?

A. Definitely not comparable with a rate which is to be received for coal, because those costs which Mr. Gouge has quoted will include the cost of passenger service. And furthermore the rates quoted by Mr. Gouge are for our average freight train, and our average freight train has a revenue load only about a third of the proposed coal train.

6. Are you suggesting that the coal train would cost three times as much to operate as the average train?

A. No, not three times as much, but certainly more than the average train, and it is clear that the cost of this coal train per mile must be much higher than the average train.

7. Do you agree with the statement on the top of page 5 of Mr. Gouge's supplementary brief to the effect that the railways would receive a profit of $14\frac{1}{2}\%$?

A. No, because that is entirely disposed of.

8. By what you have just said?

A. Yes.

9. As a matter of fact it is quite possible at the rate he proposes that the railways would sustain a loss on the movement?

A. It is.

10. Instead of making $14\frac{1}{2}\%$ profit they would in fact sustain a loss on the movement at the rates Mr. Gouge suggests should be established?

BY COMMISSIONER MORRISON - Probably?

A. Yes, or possibly.

EXM. BY MR. DYSART (continued)

Q. Say there was a saving of 33% in cost on trainload movement as stated on page 7 of Mr. Gouge's supplementary brief. Have you any comments?

A. Yes, there would certainly be no 33% saving by reason of movement in trainload lots. This 33% has never been, and cannot be admitted as a saving by the railways, because it is not a cost figure at all. It is merely the difference between two sets of rates.

Q. And not a proper criterion by which to judge matters of this kind?

A. That is it exactly.

Q. Have you made an analysis of the material contained on pages 6 to 10 of this brief, and if so, have you any comments to make on that?

A. Yes.

4:00 P.M. HEARING ADJOURNED UNTIL SATURDAY, OCTOBER 5th, 1945.

at 10:00 O'CLOCK A. M.

510495

Canada. Coal, Royal Commission on

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